BOAO FORUM FOR ASIA

FICCI

25 YEARS
MAKING MARKETS FUNCTION BETTER
CRISIL
INFRASTRUCTURE ADVISORY

ASIAN FINANCIAL COOPERATION CONFERENCE
26-27 November, 2012, Mumbai

Open Asia, Open Finance

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About BOAO Forum For Asia (BFA)

As a non-government, non-profit international organization, Boao Forum For Asia (BFA) is the most prestigious and premier forum for leaders in government, business and academia in Asia and other continents to share visions on the most pressing issues in this dynamic region and the world at large. The Forum is committed to promoting regional economic integration and bringing Asian countries even closer to their development goals.

Initiated in 1998 by Fidel V. Ramos, former President of the Philippines, Bob Hawke, former Prime Minister of Australia, and Morihiro Hosokawa, former Prime Minister of Japan, Boao Forum for Asia was formally inaugurated in February 2001. Countries across the region have responded with strong support and great enthusiasm, and the world has listened attentively to the voice coming from a tiny, quiet and scenic island at the southernmost part of China – Boao, the permanent site of the Annual Conference of the Forum since 2002.

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CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

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CRISIL Infrastructure Advisory is a leading advisor to regulators and governments, multilateral agencies, investors, and large public and private sector firms. We help shape public policy and enable infrastructure development. Our services span a wide array of infrastructure development activities. Our work in the areas of policy formulation, regulation, design and implementation of public-private partnership (PPP) frameworks and infrastructure financing mechanisms helps create a vibrant ecosystem for infrastructure development. Our services at the project level include bid process management, valuations and due diligence to enable investment decisions. We are known for our core values of independence and analytical rigour combined with deep domain expertise. Our teams have expertise across the complete range of infrastructure sectors - urban development, energy, transport and logistics, natural resources, education, and healthcare. We have a rich understanding of PPP and financing related issues. We operate in India and 22 other emerging economies in Asia, Africa, and the Middle East. CRISIL Infrastructure Advisory is a division of CRISIL Risk and Infrastructure Solutions Limited, a wholly owned subsidiary of Standard and Poor's Limited.

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Executive Summary

Need for Economic Integration:

Global Economic Outlook – The global economy has witnessed major setbacks in recent times. The IMF has projected a global increase in output of just 3.6% in 2012, the slowest since the financial crisis in 2009. Most nations are still overcoming the consequences of the financial crisis. The US economy is recovering sluggishly and Europe is still resolving its debt and banking crisis, the worst in years. Despite all this, Asia accounted for 36.6% of the global GDP in 2011 and is slowly emerging as one of the most dynamic regions in the world.

Regional Economic Outlook - Greater intra-regional trade and financial integration in Asia have evolved from the fiscal crisis and the slow growth in the developed economies. In the past decade, the world has witnessed a shift in economic dynamism from the industrialised economies to the emerging markets in Asia. In 2011, Asia contributed 36.6% of the global GDP in comparison to the European Union, which accounted for just 20.1%. The growth numbers tell another significant story of the rise in the Asian economies. In 2008-2011, Asia, on an average, had a real GDP growth of 5.8%, while the developed economies of North America and the European Union grew at an average of just 0.4% and 0%, respectively. Despite the strong domestic demand and relatively low levels of unemployment in Asia, the economy is still vulnerable and faces the following significant challenges in its path to growth:

- For many small economies, majority of the demand is based ‘outside’ Asia. A sharp fall in this demand could have a severe impact on the level of activity in Asia.
- Global oil prices have always had a major impact on any economy. Many economies across Asia have seen a rise in inflationary expectations in recent months.
- Given the current uncertainty in the global economy and the strong influence of European and UK banks in Asia, any major change in credit supply and capital flows will be have a negative effect on growth in Asia.

Embracing Greater Regional Integration - One of the major contributors to the Asian success story is the rise in regional cooperation and integration. Intra-Asian trade has tripled since 2000 in contrast to its trade with the outside world, which has only doubled, with China having taken the lead role of an assembly hub for final goods exports. Global foreign direct investments (FDI) have grown at an average rate of 5% per annum from 2000 to 2007. Although it fell sharply by an average of 22% from 2007 to 2009, in comparison to the EU-15, it fell at an average of 37% a year. This major growth in Asian economic integration has the potential to address several regional challenges and strengthen global economic progress. The inter-connectivity of financial integration and intra-regional trade connects the Asian markets and reduces dependency on the outside economies, thereby improving financial stability. The diversity of multiple nations creates competition that will boost productivity and enhance growth. Asian integration will not only benefit the Asian countries but also have multiple positive effects on the global economy. It will diversify sources of global demand and generate productivity gains, new ideas, and competition, and by maximising the productive use of Asian savings, it will contribute to the efficiency and stability of global financial markets. Asia needs to embrace this regional integration.

Dimensions of Regional Integration: Regional integration and cooperation is being explored by the Asian countries in many forms and will be examined through the course of the report.

Trade Integration - Asian intra-regional trade is growing faster than its trade with traditional markets in the US and Europe. The number of free trade agreements (FTA) in Asia and the Pacific has grown sharply from 53 in 2000 to 250 as of September 2012, mainly due to the successful regionalism in North America and Europe and concerns over discriminatory treatment of Asian exporters in the North American and European markets. Since most of these FTAs are recent, it will take some time for their positive effects to materialize. There has been a rise in production networks in Asia and this has led to a large role being played by intermediate and primary goods.

Small and medium enterprises (SME) play a pivotal role in the functioning of international and regional production networks. They are viewed as the basic backbone of development in many Asian economies. Potential benefits of integrating SMEs in regional production networks include lower trade costs, improved efficiency, job creation and inclusiveness, and rebalancing of domestic and regional demand.

Financial Integration - The typical approach to test for integration in equity markets is to compute the pairwise correlations between stock indices for different countries and see if those correlations have increased over time. Financial integration in Asia would be a means for channelling the region's savings into investments for regional development. However, it is important to have a safety net against the risks involved in integration. Foreign exchange and intra-regional currency fluctuations can lead to devaluations, which will be detrimental to the intra-regional trade in Asia. Developing harmonized market standards, fostering policy coordination between nations, and macroeconomic policy objectives to avoid fluctuations in exchange rates, are called for. The SAARC swap arrangement, funded by India to provide short-term liquidity to Asian countries, and the Chiang Mai Initiative, a currency swap arrangement among 10 countries of ASEAN, are two important initiatives that provide safeguard against the risks of financial integration.

Macroeconomic and Financial Cooperation - The US and euro area continue to be important markets for the region's exports. Asia would greatly benefit by strengthening the coordination of macroeconomic policies. There will be many hurdles in strengthening these policies, most of which have been highlighted in the report, including those pertaining to the accumulation of forex reserves, exchange rate fluctuations, infrastructure investment needs, instability of capital flows, etc. Regional-level oversight and policy coordination can help create mechanisms to address these regional issues, and coordinated efforts will be required to strengthen macroeconomic governance and enhance Asia's long-term financing facilities and cooperation in exchange rates and macroeconomic policy management.

Other Important Facets - Apart from the three major dimensions of integration among Asian economies, there are many minor aspects that have contributed to the growth in regional integration. There has been a steady growth of tourism within Asian countries. In 2010, 81% of Asia's tourist arrivals were from within the Asian region itself. In 2010, world tourism growth was estimated to be 7%. In the same year, Asia witnessed a tourism growth of 14%, almost double the global estimate. The energy imbalances within Asia are paving ways for integration of Asian energy markets. The infrastructure sector has also seen a significant rise in intra-regional trade. According to the Asian Development Bank, the infrastructure requirement of Asia amounts to US$ 8,280 billion across various sectors, which requires huge capital investment.

The Way Forward: While the shape of the Asian century is not set in stone, the scale and pace of Asia's rise in the coming decades are expected to be staggering. Many nations in the region have just begun to catch up with the productivity levels enjoyed in advanced economies, promising strong income growth for decades to come. Asia will not just be the most populous region in the world; it will be the biggest economic zone, the biggest consumption zone, and the home to majority of the world's middle class. There is a need for regional integration among Asian economies, and this will only be brought about by sound and stable economic fundamentals. The future holds many hurdles for the Asian economies, and only in a collective and cooperative way will Asia be able to prosper.

Need For Economic Integration

Global Economic Outlook

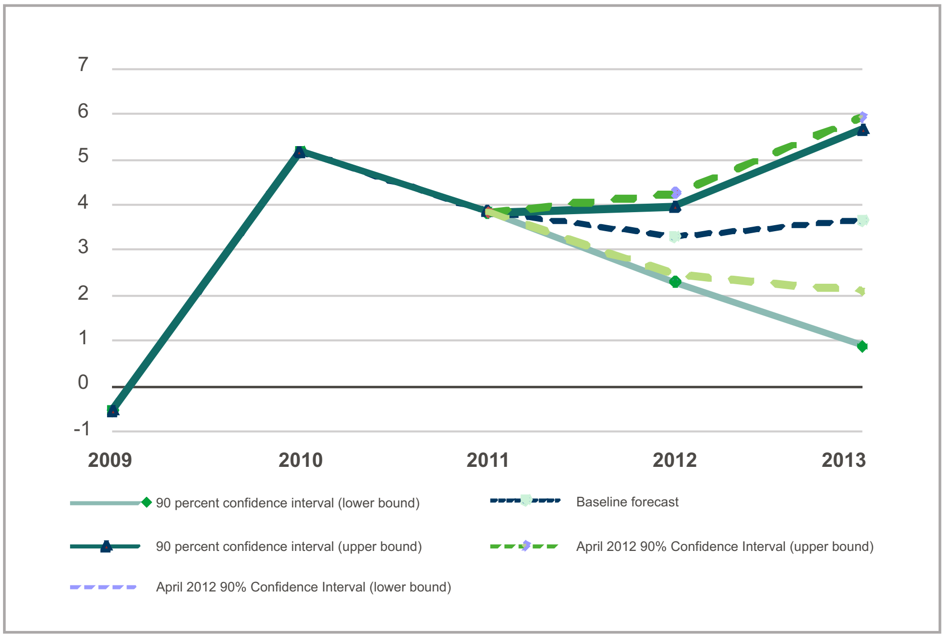
IMF's World Economic Outlook growth forecast for 2012 is now 3.3 and for 2013 is 3.6 percent

In recent years, the global economy has gone through very difficult times. All the key economic indicators for the first two quarters of 2012 point to a slowdown in global recovery.

The International Monetary Fund (IMF) reduced its global gross domestic product (GDP) growth forecasts in October 2012, the second time since April 2012. The global output growth in 2012 is projected to be just 3.3%, the lowest since the global financial crisis in 2009.

The GDP growth projected by the IMF for 2013 is 3.6%, only slightly higher than that of 2012.

Prospects for World GDP Growth (percentage change)



Note: *The above chart shows the uncertainty around the WEO central forecast with 90 percent confidence intervals.*

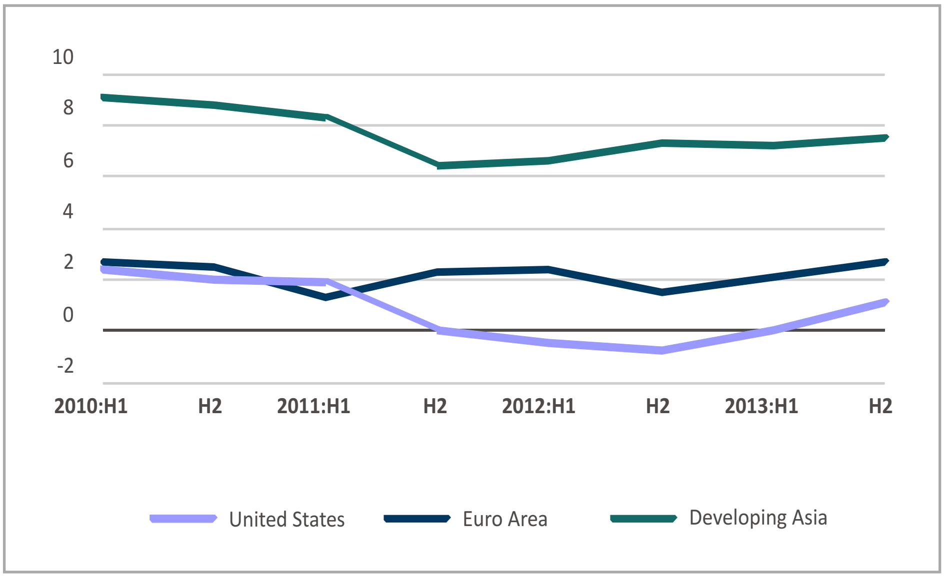
Sources: *World Economic Outlook October 2012 Database, IMF.*

While most of the developed nations are still reeling under the effect of the financial crisis, the emerging economies of Asia and other regions have been growing at a rate faster than the more advanced nations.

Economic growth in developing Asia has been encouraging despite the slow recovery in the US and the eurozone financial crisis. Asia accounted for 36.6% of the global GDP in 2011. In contrast, the US and euro area accounted 23.0% and 20.1%, respectively, of the global GDP in 2011.

There has been a significant transformation of the Asian economies over the last decade. The real GDP growth of Asia is twice that of the US and euro areas. At this rate, as per the Asian Development Bank estimates, Asia's share in global GDP will double by 2050.

Double-track growth: Real GDP growth (percentage)



Developing Asia's economic growth has remained strong despite the eurozone financial crisis and lackluster recovery in the US. In 2011, Asia accounted for 36.6 percent of global GDP. In contrast, the US and Euro Area accounted 23.0 percent and 20.1 percent of the global GDP in 2011. With real GDP growth of Developing Asia being twice that of the US and Euro Area for the past decade Asia's economies have witnessed a historic transformation. The Asian Development Bank has estimated that if Asia continues to follow its recent trajectory, then by 2050 it can double it's share of global GDP.

Note: *Developing Asia refers to ADB member countries; Advanced economies includes Australia, Canada, European Union, Japan, Israel, New Zealand, Norway, Switzerland, and United States; Weighted using gross domestic product (current international dollar, PPP)*

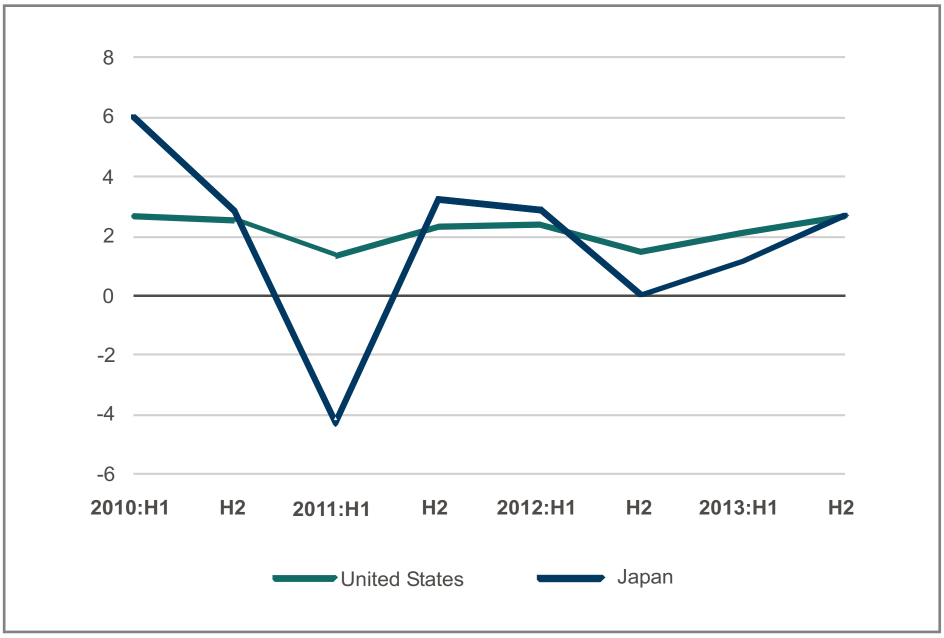
Sources: *Asian Development Outlook 2012, ADB; World Economic Outlook October 2012 Database, IMF; Asia 2050: Realizing the Asian Century, ADB*

The External Environment for Asia

Weak fiscal and financial conditions in the euro area and sluggish growth in the US

The sovereign debt crisis faced by some of the largest economies in the world is seen only in the worst cases in the developing world. Many countries are facing slow or negative growth and significant levels of unemployment. These issues pose a serious threat to many governments in the West. Resolving them will require further stifling of economic growth and dismantling of government services.

The US economy's economic recovery is likely to be long and sluggish amidst waning investment demand, with little prospect of further stimulus.

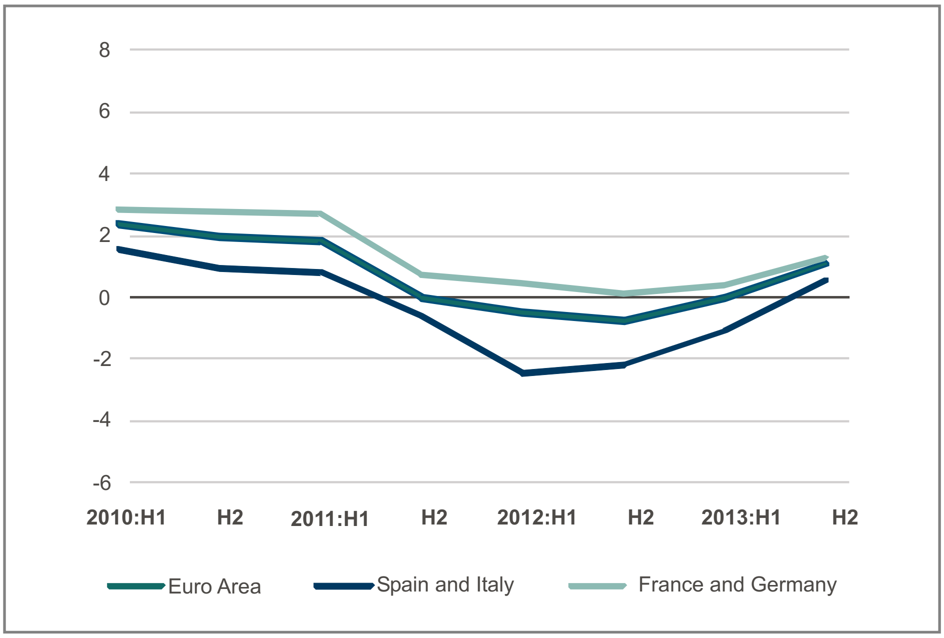


There were signs of the economy recovering, but the downward revision to 1.9% quarter-on-quarter seasonally adjusted annualized rate of the second quarter growth in GDP suggests that US recovery is failing to gain traction.

Unemployment levels have been high, above 8%, which has placed stress ion consumer income and spending. The purchasing managers' index (PMI) indicates that growth in manufacturing has been moderate – mainly from weaker external demand.

Fiscal stimulus could provide a boost to the economy, but public spending has been contracting. There is a possibility of a 'fiscal cliff' at the beginning of 2013, when several tax cuts expire and spending cuts come into effect.

As the euro area is still trying to resolve its sovereign debt and banking crisis, it continues to struggle with weak manufacturing and rising unemployment.



There was considerable diversity in the performance of each economy during the euro zone crisis. In the first half of 2012, economic growth in the euro area came to a standstill. Germany was one of the few nations that continued to grow.

The deterioration of euro area still continues, with output declining in the June quarter, credit markets remaining impaired, business and consumer confidence continuing to weaken, and the unemployment rate rising to new euro era highs.

Several major challenges continue to plague the euro areas. These challenges are related to the fragility of financial institutions and the high level of sovereign debt. Fiscal austerity measures by governments, while necessary, are likely to have an adverse impact on demand.

Note: *The graphs depict GDP growth (half-over-half annualized percent change)*

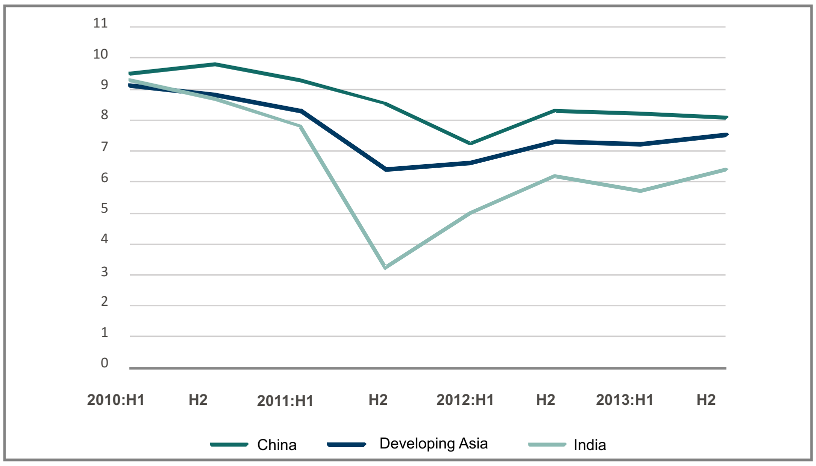
Sources: *World Economic Outlook October 2012 Database, IMF*

Regional Economic Outlook

Asia is emerging as the most dynamic region of the world

There has been a shift in economic dynamism from industrialized countries to the emerging markets in Asia over the past decade. Asian economies have been growing at over two times the pace of the developed economies. This has increased the significance of Asia in the global economy, which is likely to have long-lasting ramifications on global demand, supply chains, and trade.

GDP growth[1] half-over-half annualized percent change)



Basic economic indicators by region and sub-region[2]

	Share of World Population	Share of World GDP (%, PPP)	Real GDP Growth[3]		Per Capita GDP (PPP)	
			Average 2000-2007	Average 2008-2011	US$ 2011	Average growth (%)
Asia	56.2	36.2	6.2	5.8	7,376	7.0
East Asia	22.5	23.5	6.3	5.9	11,896	7.7
Central Asia	1.2	0.7	10.3	5.9	6,396	9.8
Southeast Asia	8.7	4.2	5.5	4.5	5,476	6.0
South Asia	23.3	6.9	6.8	7.0	3,325	7.4
The Pacific & Oceania	0.5	1.3	3.4	2.0	29,623	3.5
European Union	7.2	20.1	2.6	0.0	31,6.7	3.6
North America	6.6	23.0	2.6	0.4	39,450	3.1
World[4]	100.0	100.0	4.2	2.8	10,821	4.7

In 2011, Asia constituted 56.2% of the global population and accounted for 36.6% of the global GDP.

There has been a strong domestic demand in Asia despite the grim situation in the US and euro area. In addition, Asia has low unemployment rates, high capacity utilization, and robust credit growth.

Note: *[1] The graph depict GDP growth (half-over-half annualized percent change)*
[2] European Union (EU) refers to the aggregate of the 27 EU members; North America includes Canada, Mexico, and the United States
[3] Weighted by nominal GDP in PPP (GDP = gross domestic product; PPP = purchasing power parity)
[4] Per capita GDP as of end-2010

Sources: *World Economic Outlook October 2012 Database, IMF; ADB calculations using data from Asian Development Outlook 2012, Asian Development Bank; and World Development Indicators, World Bank*

Risks to Asia's Growth

Asia is exposed to the large downside risks

Despite of the strong economic growth, Asia is not free from the risks and challenges facing the developing nations. Some of the key risks and policy challenges for economies in the Asian region include:

Major near- and medium-term challenges that are making the Asian economies vulnerable		
Trade linkages with Europe	**Commodity price volatility**	**Destabilizing capital flows**
Large downside risks surrounding the global recovery would be because of high degree of trade and financial integration. On a value-added basis, for many smaller open Asian economies, more than one-third of the GDP is linked to demand outside Asia, and the bulk of this demand still comes from the traditional markets in the US and Europe. A fall in this demand would severely impact activity in Asia	Geopolitical tensions could push oil prices higher, given the low global inventories and spare capacity. The impact on economies in the region would vary, reflecting among other things their dependence on oil and, if the shock also affects other commodity and food prices, reflecting their approach to stabilizing these prices domestically. Although headline CPI inflation has declined since mid-2011 across the region, many economies have seen a rise in inflationary expectations since the beginning of 2012.	Euro area and UK banks are very active in Asia—both in the area of direct credit, including trade finance, and in the area of wholesale funding of regional banks, particularly in Hong Kong SAR, Korea, Singapore, and Taiwan. The ongoing deleveraging process in the euro area will have an adverse impact on the credit supply situation in Asia. Poor prospects in Europe and the US have resulted in capital flowing to the better performing Asian economies. Given the uncertainty in the global economy and financial sector, a sudden change in risk perception can occur, which will lead to wide variations in capital flows.

Sources: Global and Regional Economic Outlook and the Role of Integration in Asia - Speech by Naoyuki Shinohara, IMF Deputy Managing Director (March 2012

Embracing Greater Regional Integration

Asia is forging ahead in part due to regional cooperation and integration

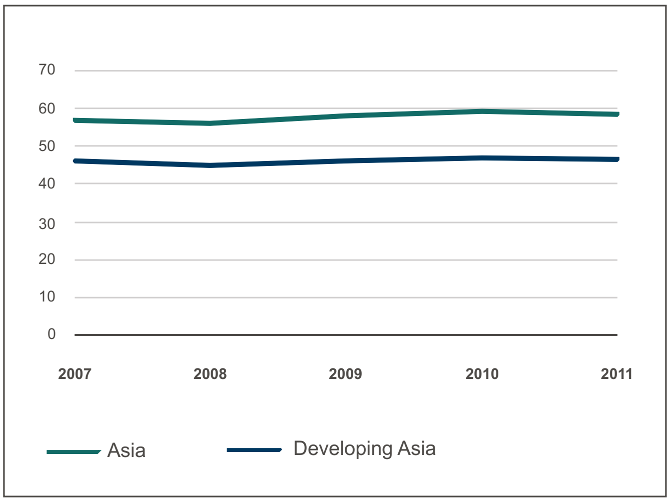
Trade integration

One of the most striking trends in Asia's rise as the world's leading source of exports has been the growth in intra-regional trade. As compared to global trade and Asia's trade, which has doubled since 2000, intra-Asian trade has tripled. A huge benefit of this rise in intra-regional trade is the cushion it provides to the slowdown of the western economies. China has taken on the role of an assembly hub, mainly for consumer goods, in the supply network formed from trade within Asian economies. Increasing direct and indirect access to the Chinese consumer goods markets could offer lasting benefits for Asian trading partners.

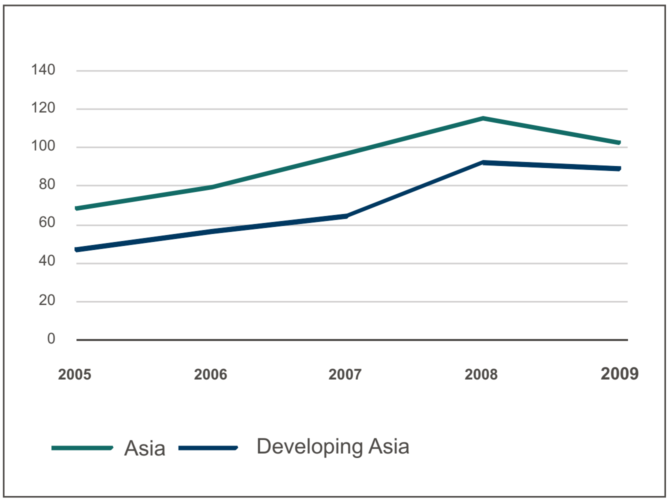
Financial integration

Due to the increase in intra-regional trade, there has been a rise in cross-border flows of some asset investments and bank claims. The size of the cross-border equity holdings is much higher than that of debt, but the share of both has been increasing. Foreign direct investment (FDI) grew at an average of 5% annually from 2000 to 2007, while from 2007 to 2009, it fell at an average of 22% a year. The fall is even sharper for EU-15, where FDI inflows contracted an average 37% a year during the same period. For 15 East Asian and Southeast Asian economies, FDI fell a mere 8% per year. This was because the share of intra-regional FDI inflows to the total inflows increased from 44.6% in 2007 to 60.0% in 2009.

Intra-regional trade share (percentage)



Intra-regional FDI flow (in USD billion)



Note: Asia includes the 48 regional member countries of ADB. Developing Asia refers to Asia excluding Japan, Australia, and New Zealand; Intra-regional trade share is the percentage of intra-regional trade to total trade of the region, calculated using exports data; FDI flows are actual BOP-basis reported net inflows.

Sources: Global and Regional Economic Outlook and the Role of Integration in Asia - Speech by Naoyuki Shinohara, IMF Deputy Managing Director (March2012)

Benefits of Asian Integration

The benefits of Asia's growing integration is increasingly garnering attention

There is immense potential in Asia for economic cooperation to address several regional challenges as well as strengthen global economic progress.

How Asian economic integration benefit the World

Keep global markets open/ vibrant

- Improves the efficiency and stability of global financial markets by maximizing the productive use of Asian savings
- Provides leadership to help sustain open global trade and financial systems

Make global markets stronger & safer

- Results in productivity gains, new ideas, and competition, thereby increasing economic growth and incomes worldwide
- Diversifies sources of global demand, thereby stabilizing the world economy

How Asian economic integration benefit Asia

Insure financial Stability

- Connects the region's capital markets to enhance financial stability
- Helps in setting exchange rate and macroeconomic policies to minimize the effects of global and regional shocks

Mobilize resources for development

- Pools the region's forex reserves to make more resources available for investment/ development
- Builds connected infrastructure and collaborates on inclusive development to reduce inequalities

Create strong foundations

- Links the competitive strengths of its diverse economies in order to boost their productivity and sustain growth
- Creates regional mechanisms to manage cross-border health, safety, and environmental issues better

Sources: Emerging Asian Regionalism - A Partnership for Shared Prosperity, published by the Asian Development Bank

Support for Regional Integration

Asian leaders believe that the advantages of closer economic relations outweigh the costs

A study conducted by ADB indicated that Asia's key opinion leaders generally see regional integration to be beneficial. The study was conducted in August 2007, and over 600 responses were collected and analysed. The respondents considered the potential costs of integration, such as a greater economic divide between the rich and the poor and loss of some autonomy in national economic policy making, to be substantially smaller than its benefits.

Costs:	Benefits:
▪ Contagion-driven crisis ▪ Trade diversion ▪ Rising domestic inequality and polarization	▪ Expands markets for goods and inputs thereby improving resource allocation and productivity ▪ Improves risk-sharing ▪ Reduces income disparities between countries

Sources: Emerging Asian Regionalism - A Partnership for Shared Prosperity, published by the Asian Development Bank

Dimensions of Regional Integration

Many forms of regional integration and cooperation are being explored by Asia.

1 Trade integration

Several governments in Asia announced macro-economic stimulus packages after the financial crisis in 2008. This led to the increase in income and demand levels in the region and also helped in boosting growth in most Asian economies. Asian economies were growing rapidly while developed economies in Europe and the US registered low/negative growth, resulting in further trade integration in the Asian region.

The improved intra-regional trade integration further benefitted the economies in Asia. China has emerged as a regional manufacturing hub with the strengthening of the regional production networks.

The prospects and potential of intra-regional trade integration in Asia can only be improved by free trade agreements.

2 Financial integration

The Asian financial markets are more integrated with the global markets than with the regional markets. This has increased both the intra-regional investment and trade flows, though the portfolio investment flows and cross-border bank loans are low. As the economic uncertainty continues in the US and Europe, there is an increase in the intra-regional financial integration. The policy makers however are worried that greater financial integration can lead to a higher risk of contagion.

Trade relations are adversely affected by the foreign exchange fluctuations. Adopting measures such as the SAARC Swap Arrangement and the Chiang Mai Initiative can facilitate financial cooperation and serve as regional safety nets.

3 Macroeconomic and financial cooperation

The global crisis highlighted the need for a greater policy cooperation and regular assessment of members' economic conditions, risks, and vulnerabilities (early warning systems), to provide appropriate policy recommendations.

Policy coordination is the key to strengthen the macroeconomic oversight, enhance access to short- and long-term financing, and mitigate forex volatility risk.

Following are some of the key sub-regional initiatives (ASEAN+3) taken in this regard:

- Economic Review and Policy Dialogue
- Macroeconomic Research Office
- Chiang Mai Initiative Multilateralisation (CMIM)

4 Other important forms

In many Southeast Asian economies such as Thailand, the tourism sector has emerged as a leading forex earner and valuable means for creating jobs due to the increase in tourist arrivals from within the Asian region, especially from South Asia.

The largest energy importers in Asia are India and China. The main concern shared by India and China is energy security. Resource rich countries such as Indonesia (coal), Myanmar (oil/gas), and Bhutan/Nepal (hydropower) can greatly benefit from energy market integration.

Over the next decade, ~US$ 8 trillion is expected to be committed to infrastructure projects across Asia. In this case, regional savings will be required to meet the shortfalls in domestic funding.

Sources: Recent Developments in Monetary and Financial integration in Asia – Report by International Monetary Fund (written by Sopanha Sa and Julia Guérin)

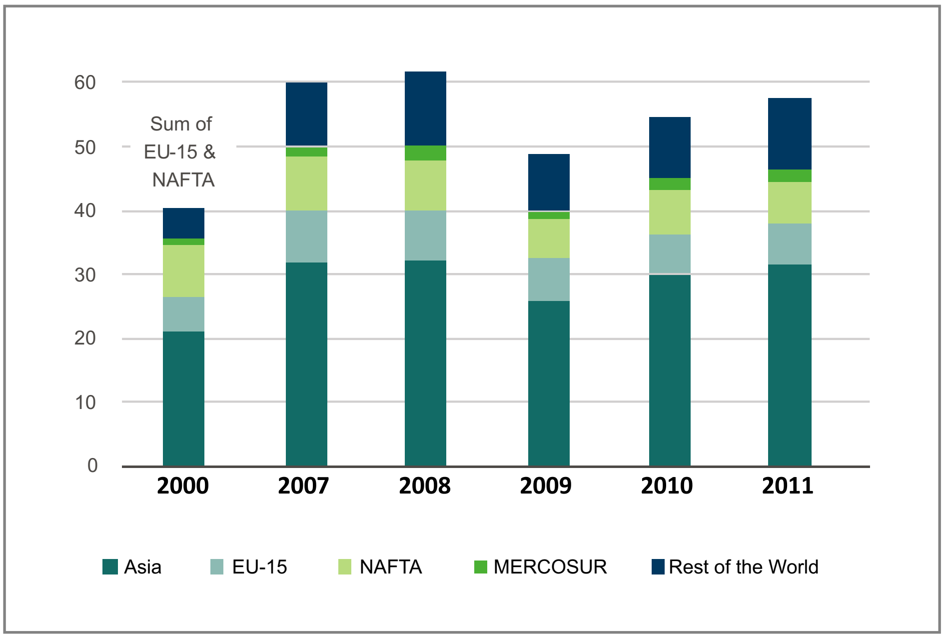
Asia As Broadly Interdependent in trade as the EU/ US

Asian economies' trade openness has expanded substantially over the last decade

1 Trade Integration

Asia's trade with traditional markets in the US and Europe is not growing as fast as its intra-regional trade. Note: Refers to total trade (exports plus imports); NAFTA = North American Free Trade Agreement and includes Canada, Mexico, and the US; MERCOSUR includes Argentina, Brazil, Paraguay, and Uruguay as founding members; Bolivia, Chile, Colombia, Ecuador, and Peru as associate members; and Venezuela, which signed a membership agreement in 2006.

Asia's Trade Links: Direction of Trade (Percentage of GDP)

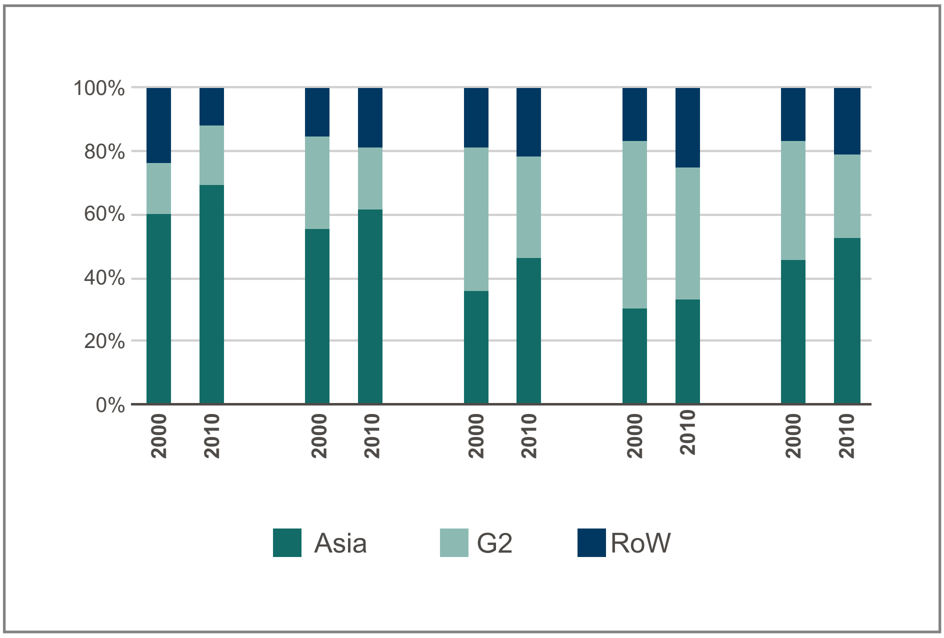


Note: Refers to total trade (exports plus imports); NAFTA = North American Free Trade Agreement and includes Canada, Mexico, and the United States; MERCOSUR includes Argentina, Brazil, Paraguay, and Uruguay as founding members; Bolivia, Chile, Colombia, Ecuador, and Peru as associate members; and Venezuela, which signed a membership agreement in 2006.

Sources: ADB calculations using data from Direction of Trade Statistics and World Economic Outlook Database April 2012, International Monetary Fund; and CEIC for Taipei,China.

In 2010, intermediate goods accounted for 50% of the total exports, of which 30% were traded within the region.

Destination of Asia's Exports by Stages of Production (percentage of total)



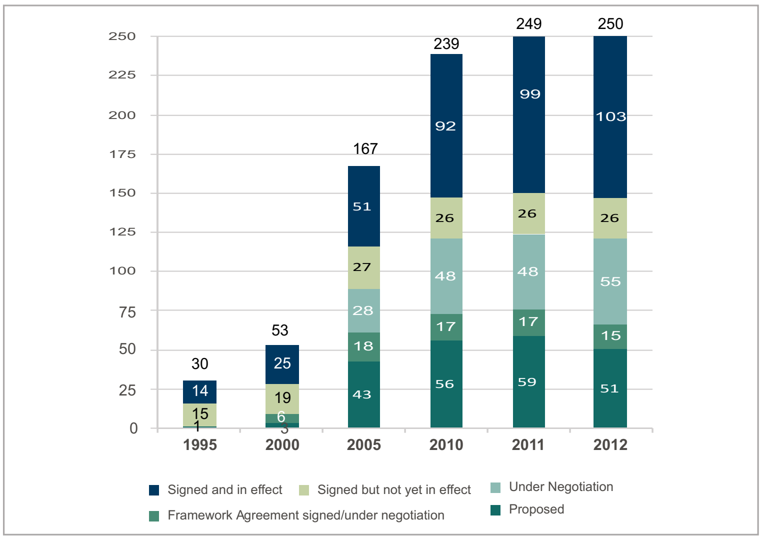
Note: Based on broad economic categories, which classify traded goods by stages of production. Primary goods include food and beverages, fuels, lubricants, and primary industrial supplies for industry. Intermediate goods include processed goods mainly for industry and parts and components for capital goods and transport equipment. Capital goods include machinery and equipment used by producers as inputs for production. Consumption goods are household goods and government final product purchases. Data for Taipei, China, is unavailable.

Sources: ADB calculations using data from UN Comtrade Database

Rise of Free Trade Agreements

Asian economies have liberalized their trade policies considerably

Free trade Agreements in Asia and the Pacific (number of agreements; as of September 2012)



In the past decade, Asia has witnessed a surge in FTAs. As of September 2012, there are 250 FTAs in Asia, of which 103 are in effect. Most of these FTAs are bilateral and involve countries outside the Asian region.

Some factors that have contributed to the increase in FTAs are:

- Disappointment with the slow progress in Doha Round and APEC liberalization
- Successful regionalism in North America and Europe
- Concerns over discriminatory treatment of Asian exporters in the North American and European markets

The depth and coverage of FTAs vary significantly. The deepest and most wide-ranging FTAs are typically bilateral deals with developed partners like the FTA between Japan and the US or the US-Singapore FTA.

The current utilization levels of the FTAs are low since many of these FTAs are recent. The positive effects are likely to materialize in the next few years through the coordination of trade policies with bilateral and plurilateral FTAs.

Many studies have proved that substantial gains can be obtained by consolidating many FTAs into a single region-wide FTA.

Note: Proposed: Parties consider an FTA, with the governments or relevant ministries issuing a joint statement on its desirability or establishment of a joint study group/joint task force for the conduct of feasibility studies; Framework agreement signed/under negotiation: The parties initially negotiate the contents of a framework agreement (FA), which serves as a framework for future negotiations; Under negotiation: The parties, through the relevant ministries, declare the official launch of negotiations or set the date for such, or start the first round of negotiations; Signed but not yet in effect: Parties sign the agreement after negotiations have been completed. However, the agreement is yet to be implemented; Signed and in effect: Provisions of FTA to come into force after legislative or executive ratification.

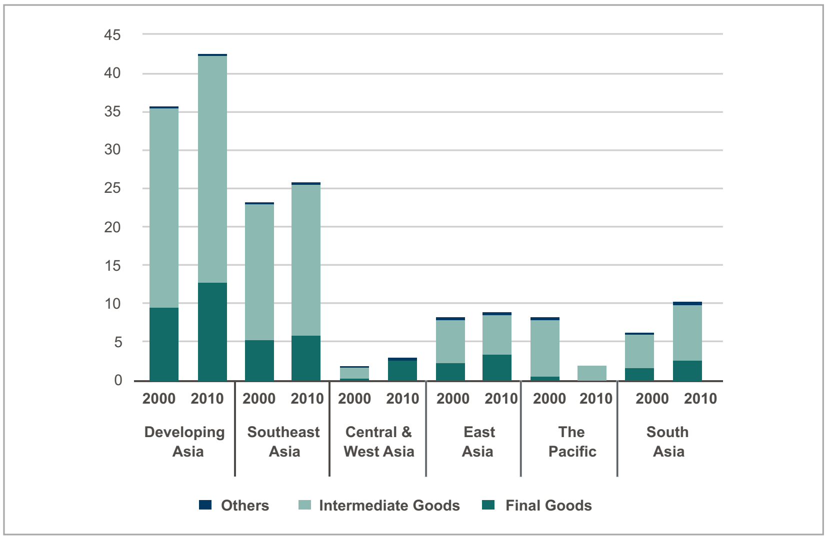
Sources: Asian Regional Integration Center's database on Free Trade Agreements in Asia and Emerging Asian Regionalism - A Partnership for Shared Prosperity, published by the Asian Development Bank

Importance of Vertical Supply Chain Links

Sub-regional trade in intermediate goods reflects expanding regional production networks

The increase in production networks in Asia is marked by fragmenting production into distinct chunks or tasks. Production is located in different countries to minimize costs and has led to the large role that intermediate and primary goods play in export growth between sub-regions. Intermediate goods accounted for about 70% of intra-regional exports from 2000 to 2010.

Contribution to Intra-regional Trade by Stages of Production(percentage points)

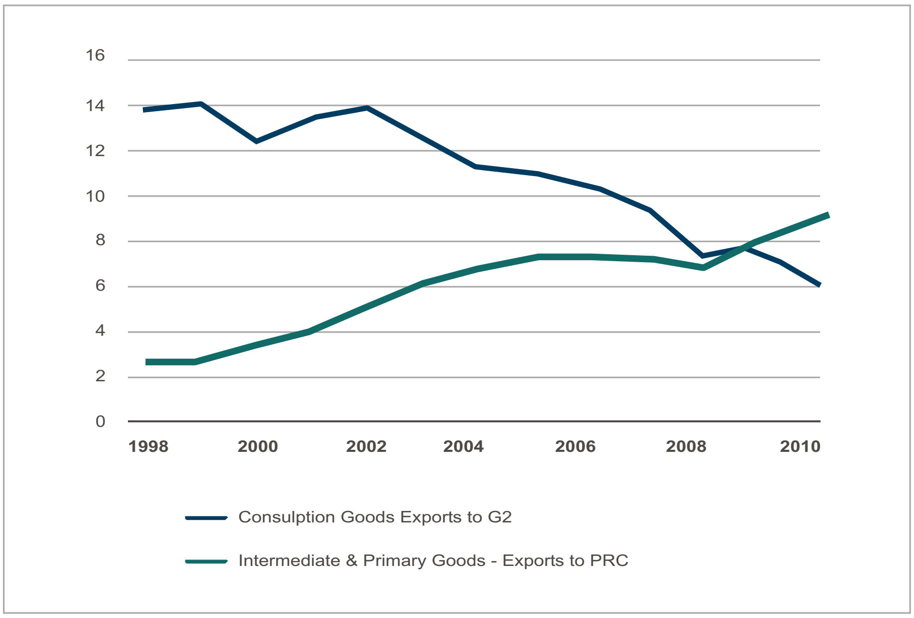


Note: Percentage of region's intraregional exports to the total exports to the world; Final goods include capital and consumption goods, while intermediate goods include primary goods, parts and components, and processed goods for industry; Data are based on the broad economic category classification. Developing Asia excludes Taipei, China, as data for the same is unavailable.

Sources: ADB calculations using data from UN Comtrade Database

The increase in trade integration is contributed by the emergence of the China as a low-cost assembly centre and manufacturing hub. As production is divided into sequential production blocks that are located in different countries. The flow of intermediate and processed goods for assembly in the PRC has increased rapidly. The share of Asia's primary and intermediate goods exports to the PRC has doubled from 6% in 1998 to about 11% in 2010.

Exports to G2 and the PRC from Asia (percentage of total exports)



Note: PRC = People's Republic of China; G2 = European Union (refers to the aggregate of 27 EU members), and the United States; Data based on Broad Economic Categories classification.

Sources: ADB calculations using data from UN Comtrade Database

Role of SMEs in Regional Production Networks

SMEs play a pivotal role in the functioning of international and regional production networks

There is significant potential for the small and medium-sized enterprise (SME) sector to increase its contribution to the region's development through greater participation in global value chains, given the trends of globalization and economic integration observed in Asia.

1 SMEs are an integral part of Asian economies

Accounting for majority of firms and a large share of employment, SMEs are viewed as the backbone of national economic development in many Asian economies.

2 Government interest for encouraging SME participation

The future success of regional economic integration is most dependent on the mutual benefits for the participating nations and one way of translating the economic growth from such integration into employment growth is through development of the capacity of the SME sector, to enable SMEs to participate effectively in regional production networks.

3 Possible positive effects of integrating SMEs into global value chains

Potential benefits of integrating SMEs in regional production networks include lower trade costs, improved efficiency, job creation and inclusiveness, and rebalancing towards domestic and regional demand.

Countries that are able to exploit the underlying fundamental forces of globalization and regional integration, which are increasing in terms of speed and space, have been growing faster and more sustainably.

The competition in the domestic, regional, and global marketplace has increased dramatically due to the economic openness and domestic trade and investment liberalization. These new opportunities and challenges in domestic markets as well as across external markets are being leveraged by larger and efficient companies. But, empirical evidence proves that SMEs continue to develop and prosper in some countries. For example, SMEs in Japan, Korea, Taipei - China, Hong Kong - China, and Singapore are doing well and expanding. SME growth is not just restricted to these countries; Thailand (automobile and electronics), Malaysia (electronics), Philippines (electronic, ICT), India (ICT, services), and Australia and New Zealand (ICT, services) are witnessing significant SME growth.

Sources: Baldwin, R (2008), "Managing the Noodle Bowl: The Fragility of East Asian Regionalism", Singapore Economic Review, 53(3):449-478; Harvie, C (2010), "East Asian Production Networks – The Role and Contribution of SMEs", International Journal of Business and Development Studies, 2(1):27-62; Lim, H and F Kimura (2010), "The Internationalization of Small and Medium Enterprises in Regional and Global Value Chains", ADBI Working Paper Series No. 231, Asian Development Bank Institute.

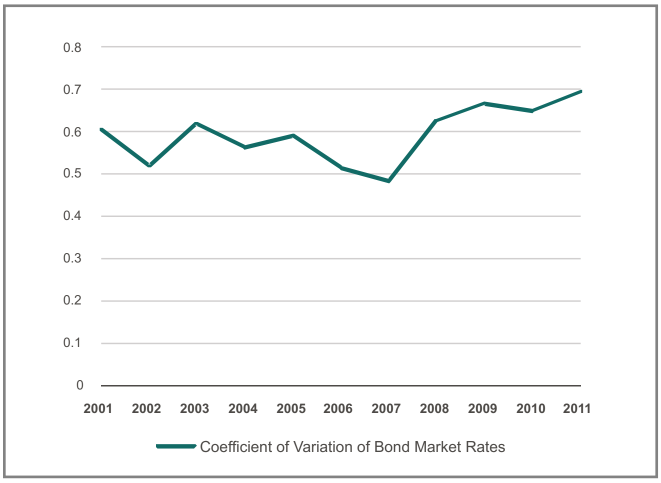
Financial Markets More Global Linked

Low level of regional financial integration; Influenced by global rather than regional factors

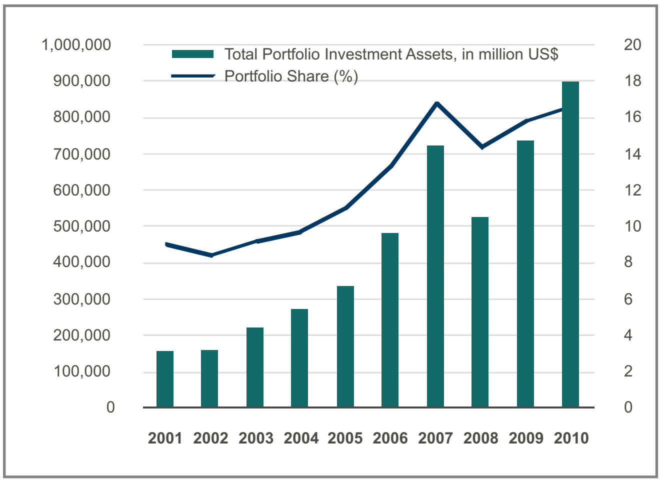
2 Financial integration

If we compute the pair-wise correlation between stock indices for different countries and see if the correlations have increased over time, we can test for integration in equity markets. Dispersion in equity returns has declined in Asia after the financial crisis in 2008. This suggests an increase in the regional financial integration. However, the local currency bond markets in several economies remain small, diverse, and more influenced by local factors than by global or regional issues.

Coefficient of Variation of Bond Market Rates



Intra-regional portfolio assets



Note: Coefficient of variation is a measure of dispersion calculated as the standard deviation of bond market rates divided by the mean. A lower coefficient indicates a higher degree of integration in the financial market; Portfolio share is the percentage of intraregional portfolio assets to the total portfolio assets held by countries in the region. A higher share indicates a higher degree of integration.

Sources: Kim, S. and J-W. Lee (2008) - Real and Financial Integration in East Asia. ADB Regional Cooperation and Integration Working Paper 17; ADB calculations from the Asian Regional Integration Center database; Bloomberg and IMF Coordinated Portfolio Investment Survey

Maximizing Benefits and Minimizing Risks

There is a need to properly manage integration so that the net benefits outweigh potential cost

Fostering regional development by channelizing Asia's large savings base

Financial integration in Asia would be an instrument for channeling the region's savings into fostering investments for robust and inclusive regional development. Integration of the region's financial markets is expected to create larger and healthier financial systems that can better channel resources towards their most productive uses.

Gross Domestic Savings		Foreign Exchange Reserves		Regional Coordination
Gross saving in Asia was estimated at almost US$ 6 trillion in 2010 - equivalent to over 45% of the region's GDP. The PRC and Singapore save over 50% of their annual GDP.	+	Asia maintains a huge foreign exchange reserve, which is another potential source of funding. In 2011 they totaled over US$ 5 trillion - equivalent to about 39% of the region's GDP.	=	To channelizing funds for development, Asia has several regional and sub-regional initiatives targeted. For example, the ASEAN Infrastructure Fund (AIF) and the ASEAN+3 Bond Market Initiative (ABMI)

Safeguarding against risk of financial contagion

Financial linkages rather than conventional trade linkages was largely channeled for the spread of the financial crisis across countries in 2008/2009. This experience has raised concerns about the risk of contagion on account of greater financial integration among the Asian economies. Through macro-economic and financial cooperation we can only ensure that these risks are properly managed. Governments in the region are pursuing policies that can help enhance the benefits from risk sharing at a minimal risk of financial contagion. These include:

- Developing coherent rules and market standards that will promote formation of institutional investors, and Asia-wide portfolio investments
- Fostering policy coordination through improved cross-border supervision of markets to address the risks to regional stability and common policy priorities
- Avoiding fluctuations in exchange rates with potential disruptions to trade and the real economy by complementing macroeconomic and monetary policy objectives.

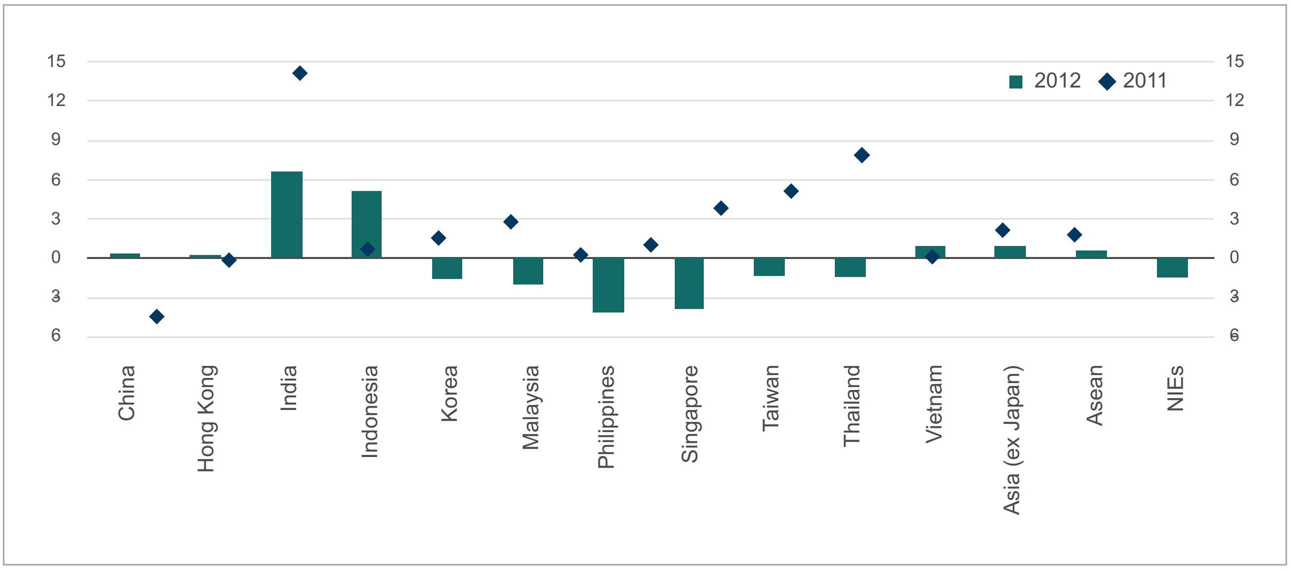
Sources: AAsia's Integration Now and Next - Speech by Allen Ng, Bank Negara Malaysia (April 2012)

Foreign Exchange Fluctuations

Foreign exchange volatility can impede growth of intra-regional trade relations

Since 2008, some of the regional currencies appreciated significantly against the US dollar in both nominal and real effective terms. However, others remained relatively unchanged and some even depreciated. Even, the region's individual currencies - as measured against a regional basket - have become far more widely dispersed.

Regional Exchange Rates vis-à-vis the US Dollar(Annual variation in percentage)



The IMF, in March 2012 published a detailed research paper that analyzed China's exchange rate changes and its impact on exports of competitor countries in third markets. According to this study and its findings, a 10% appreciation of China's real exchange rate can potentially boost a developing country's exports of a typical 4-digit HS product category to third markets by about 1.5-2%.

It is confirmed through tis study that along with other empirical research that the increase in intra-regional exchange rate fluctuations is detrimental to expanding intra-regional trade in Asia.

Note: Annual variation of national currencies versus USD in percentage; Positive number means currency is losing value against USD. Regional aggregates provided only as indicative information.

Sources: Central banks and Thomson Reuters; Mattoo, Aaditya ; Mishra, Prachi ; Subramanian, Arvind (2012) – Spillover Effects of Exchange Rates: A Study of the Renminbi, IMF

Collective Solutions to Regional Issues

To address regional foreign exchange volatility an innovative solution is required

The main concern in the global financial crisis is that there would be a crunch on credit and the contraction of financial markets in the Asian region. A debated on the need for mechanisms to address short-term liquidity difficulties and to supplement international financing arrangements though regional and sub-regional initiatives aws discussed by the regional policy makers.

The SAARC Swap Arrangement, which was initiated in May 2012 is a recent example of a sub-regional initiative that addresses regional foreign exchange volatility as well as liquidity issues.

Emerging macroeconomic and financial cooperation in South Asia: The SAARC swap facility

The Reserve Bank of India announced in May 2012, with a view to strengthen regional financial and economic cooperation during the SAARCFINANCE Governors' Meeting in Nepal, that the bank will offer a swap arrangement.

The SAARC Swap Arrangement will have a corpus of US$ 2 billion. India will contribute the entire fund. The swap amount available to various member central banks has been arrived at broadly based on two months' import cover subject to a floor of US$ 100 million and a maximum of US$ 400 million per country.

The facility will be available to all SAARC member countries, i.e., Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka. For availing the facility, the central banks of requesting countries will need to enter bilateral swap agreements, which will need final approval from the Government of India.

Under the facility, the requesting member countries can make drawals of US dollar, euro, or Indian rupee in multiple tranches. Each drawal is of three-month tenor and can be rolled over twice. The first rollover will be at the normal rate of interest, while the second one attracts 50 basis points interest more than the normal interest rate. The normal interest rate agreed upon is the LIBOR (for three months) plus 200 basis points. The normal interest rate for INR swap is RBI repo rate minus 200 basis points.

A back stop line of funding for the SAARC member countries to meet any balance payments and liquidity crises is intended to be provided by the swap arrangement, until a more longer term arrangements are made or if there is a need for short-term liquidity due to market turbulence.

Note: SAARC = South Asian Association for Regional Cooperation; SAARCFINANCE = Network of Central Bank Governors and Finance Secretaries of the SAARC Region

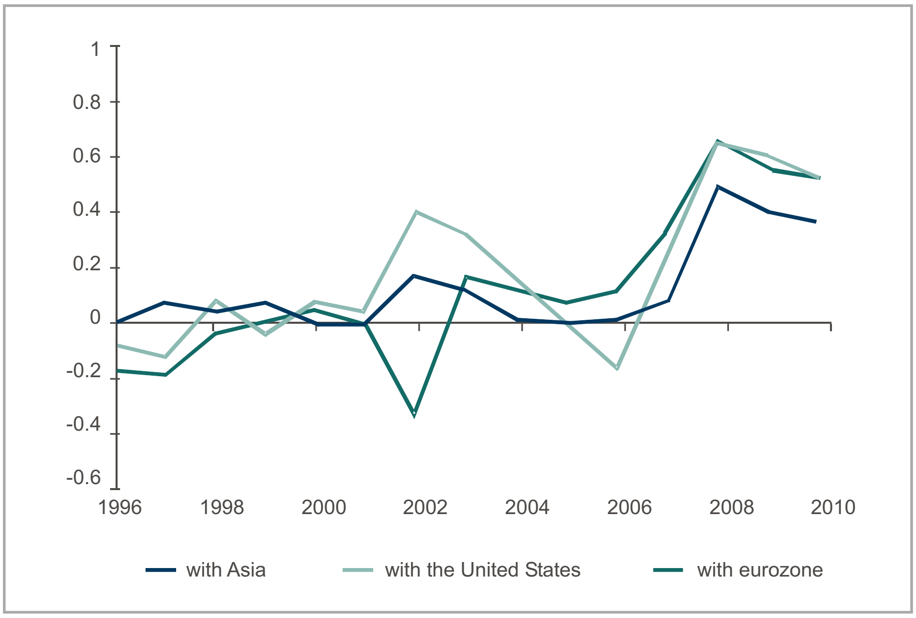
Sources: Reserve Bank of India Announcement dated May 16, 2012

Macroeconomic Interdependence

Significance of closer trade and financial ties is through co-movements of growth rates and inflation levels.

The US and euro area continue to be important markets for the region's exports. The increase in output correlations mainly reflect the impact of a global shock propagated throughout Asia.

Output Correlations - Asia

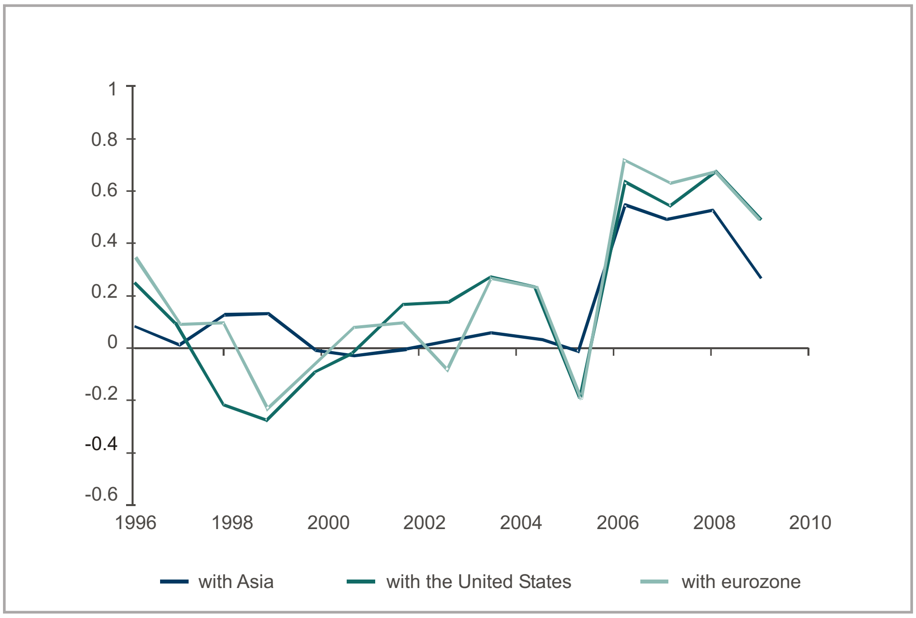


Note: Correlations based on simple averages of 3-year rolling bilateral correlations of annual growth rates (difference of natural logarithms) of members' annual GDP series (2005 base year); Year labels refer to the midpoint of the 3-year range.

Sources: ADB calculations using data from CEIC and World Economic Outlook Database October 2012, International Monetary Fund.

Greater trade and financial integration strengthens the links through which prices are transmitted from one country to the other. Global commodity price shocks also caused higher inflation co-movements.

Inflation Correlations—Asia



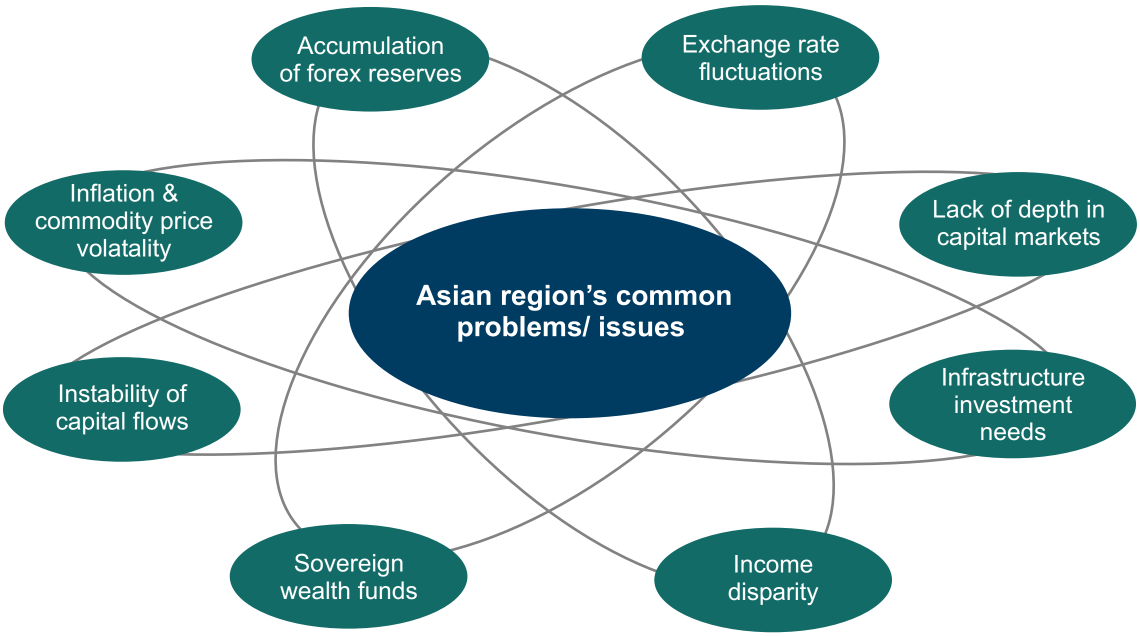
Note: Correlations based on simple averages of 3-year rolling bilateral correlations of annual growth rates (difference of natural logarithms) of members' annual CPI series; Year labels refer to the midpoint of the 3-year range.

Sources: ADB calculations using data from CEIC and World Economic Outlook Database October 2012, International Monetary Fund.

Managing Macroeconomic Interdependence

Asia would benefit from strengthening coordination of macroeconomic policies

Bolstering macroeconomic stability will require dealing with the cluster of related issues associated with:



Regional-level oversight and policy coordination can help create mechanisms to address these regional issues. To ensure sustainable development in Asia, coordinated efforts will be required to:

- Strengthen macroeconomic governance and surveillance by developing strong pan-Asian institutions and scaling up sub-regional initiatives such as ASEAN+3's economic review and policy dialogue
- Enhance Asia's long-term financing facilities through creation of functional institutions such as the ASEAN Infrastructure Fund and SAARC Development Fund
- Cooperate in exchange rate and macroeconomic policy management in the form of facilities such as the Chiang Mai Initiative and SAARC Swap Agreement

Sources: Emerging Asian Regionalism - A Partnership for Shared Prosperity, published by the Asian Development Bank

Regional Mechanisms for Financial Stability

Financial safety nets can mitigate the potential impact of contagion-driven financial crises

Financing facilities at the IMF, regional financial arrangements such as those in Asia, Europe, and Latin America, and various bilateral swap lines between central banks can help member countries to mitigate financial crisis pressures.

A recent example of a sub-regional initiative that addresses macroeconomic and financial stability issues is the Chiang Mai Initiative Multilateralisation (CMIM).

CMIM is the regional financial safety net for providing liquidity support to ASEAN+3 countries

The CMI is a regional foreign exchange liquidity support mechanism that was developed in response to the 1997–98 Asian financial crisis. CMI is a multilateral currency swap arrangement among the 10 members of the Association of Southeast Asian Nations (ASEAN), the People's Republic of China (including Hong Kong), Japan, and South Korea. The CMIM is a self-managed reserve pooling mechanism of the ASEAN+3 economies, with a total size of US$ 120 billion. The pool has expanded to US$ 240 billion in 2012.

The initiative began as a series of bilateral swap arrangements after the ASEAN+3 countries met on 6 May 2000 in Chiang Mai, Thailand, at an annual meeting of the Asian Development Bank. The benefit of CMI has been manifold. After the 1997 financial crisis, the member countries followed this initiative to manage regional short-term liquidity problems and to accelerate the work of other international financial arrangements and organizations like the IMF. The table below summarizes the contributions, purchasing multiples, maximum swap amounts, and voting-power distribution for various countries/regions under the CMIM.

Country/ Region	Financial Contribution (US$ billion)	Purchasing Multiple	Share (%)	Maximum Swap Amount (US$ billion)	Voting Power (%)
PRC (excl. Hong Kong)	68.4	0.5	28.5	34.2	25.4
Hong Kong	8.4	2.5	3.5	6.3	3.0
Japan	76.8	0.5	32.0	38.4	28.4
Korea	38.4	1.0	16.0	38.4	14.8
ASEAN	48.0	2.5-5	20.0	126.2	28.4

Note: ASEAN = Association of Southeast Asian Nations, PRC = People’s Republic of China, CMIM = Chiang Mai Initiative Multilateralisation;
CMIM funded amount is US$ 240 billion with an international monetary fund-delinked portion of 30%.
Sources: AMRO website: http://www.amro-asia.org/wp-content/uploads/2012/05/Fact-Sheet-at-AFMGM+3-in-Manila.pdf

Regional Tourism Flow

Increase in intra-regional tourism; Southeast Asia attracting tourists from South and Central Asia

In 2010, 81% of Asia's tourist arrivals were from within the Asian region.

Tourist arrivals from Asia (Percentage of total)

Year \ To	Asia	North America	Middle East	European Union	Oceania	World (Total in '000s)
2000	76.73	1.78	4.29	6.01	2.66	145,963
2010	80.93	1.24	2.93	3.1	3.36	240,924

The above statistics indicate a significant rise in tourist arrivals from South Asia to Southeast Asia and less intra-sub-regional tourism in South Asia. In 2010, Asia witnessed a tourism growth of 14%, whereas world tourism growth was estimated to be 7%. Tourism has become the most important foreign-exchange earner and source for creating employment for many countries especially Thailand, Malaysia, and Singapore.

There is an increasing trend in tourism between Central Asia and East/Southeast Asia, although the overall number of tourists is low.

Sub-regional trends in tourist arrivals(Percentage of total) **In Year 2000**

Year \ To	East Asia	Central Asia	Southeast Asia	South Asia	World (Total in '000s)
East Asia	**70.56**	0.06	9.47	0.3	109,887
Central Asia	2.01	**19.38**	0.18	0.22	7,299
Southeast Asia	19.17	0.01	**66.49**	0.99	22,292
South Asia	7.42	0.1	17.7	**17.7**	6,232

In Year - 2010

From \ To	East Asia	Central Asia	Southeast Asia	South Asia	World *(Total in '000s)*
East Asia	**74.68**	0.13	8.96	0.44	163,271
Central Asia	3.88	**28.05**	0.41	0.15	14,646
Southeast Asia	20.18	0.02	**70.00**	1.05	51,081
	11.47	0.34	27.00	**11.89**	11,658

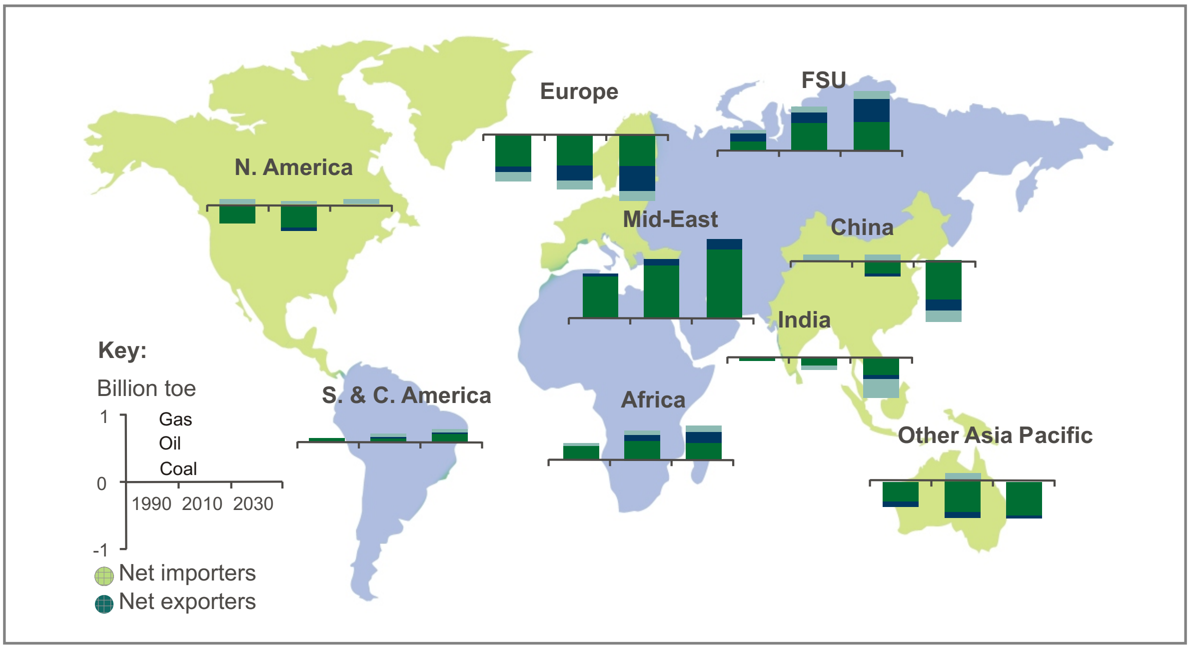
Sources: United Nations World Tourism Organization

Integrated Asian Energy Market

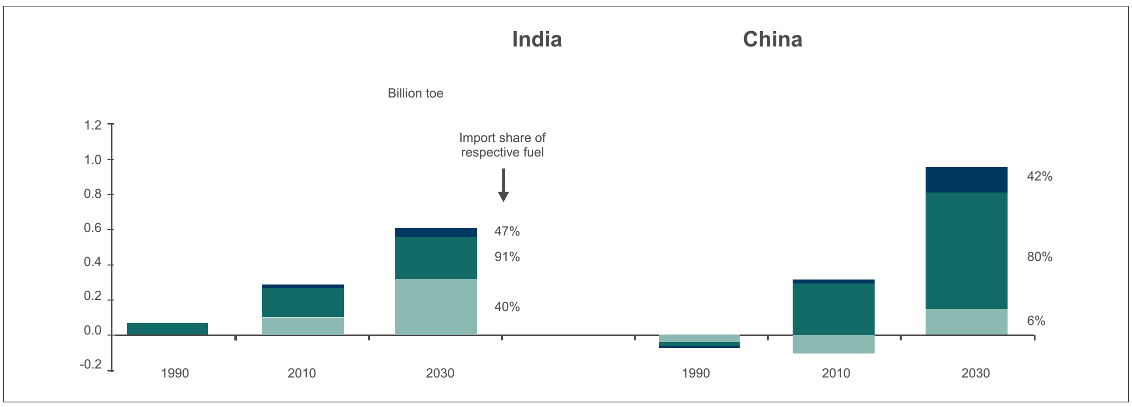
Energy imbalances are paving way for integration of Asian energy markets

With continued vibrant development, Asia needs universal access to modern energy sources, reduce dependence on fossil fuels, significantly improve energy efficiency, and more than double the share of renewables in the Asian energy mix. There is a strong disparity in resource availability as some countries are endowed with abundant resources, including coal, oil, natural gas, and hydropower, while others are resource deficient and are fully dependent on imports. Thus, to achieve a sustainable and inclusive growth, there is a need for greater energy cooperation in the region.

Global Energy Imbalances



Import dependency in India and China



Sources: BP Energy Outlook 2030

Regional Cooperation for Energy Security

Increased intra-regional cooperation is required to address energy security challenges

To ensure better coordination and 'pooling' of efforts to address energy security challenges, governments in several regions of the world are increasingly relying on new regional, bilateral, or multilateral approaches that would create more robust regional power grids with the potential of lowering capital investment requirements across time and reducing system operational costs.

Central Asian Power System

The Central Asian power system consists of interconnected high-voltage links encompassing southern Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

The main transmission lines link the power systems of the five countries for parallel operation. The system shares common operational and service management, planning, information channels, and control, and connects more than 80 power plants, including 29 thermal and 48 hydropower plants, with a total installed capacity of about 25,000 megawatts.

The system operates from the united dispatch centre in Tashkent, Uzbekistan, which is responsible for maintaining the balanced and synchronized operation of the power transmission and distribution systems of the five countries. Following the dissolution of the erstwhile Soviet Union in 1991, the countries have maintained synchronized operation, which permits the exchange of electricity among them.

Many proposals have been made in recent years to enhance regional cooperation, often involving joint investments outside the region or joint development of infrastructure such as pipelines, ports, or processing facilities. Other forms of cooperation include maintenance of emergency stockpiles among countries in the region or collective bargaining to obtain better terms on oil imports.

Sino-Indian Energy Cooperation in Burma

In June 2012, Oil and Natural Gas Corporation (ONGC) and China National Petroleum Corporation (CNPC) signed a Memorandum of Understanding (MoU), to strengthen their existing oil and gas exploration and production (E&P) operations in Myanmar, Sudan, and Syria, and look ahead to making joint bids on foreign oil and gas fields for E&P in the future.

This MoU between the state-owned oil companies of China and India signifies recognition on the part of both governments that energy unavailability could become a critical limiting factor for the growth of their economies. In an increasingly interconnected and globalized world, neither country has the financial or political capital to unilaterally and effectively develop energy resources across all energy markets. The agreement is an important step towards providing a foundation for greater regional integration of the Asian energy market.

Sources: www.carecprogram.org; Reuters news

Asia's Infrastructure Investment Needs

Financing Asia's infrastructure needs will require approximately US$ 1 trillion per year

per income capita

Shares of agriculture and manufacturing in GDP

Urbanization

Population density

Adequacy of existing infrastructure

Benefits of upgrading/ extending infrastructure networks

Regional trade and supply chains

According to estimates published by the Asian Development Bank, between 2010 and 2020, Asia's overall national infrastructure investment needs are estimated to be USD 8 trillion, 68 % of which is for new capacity and 32% of which is for maintaining and replacing existing infrastructure.

Asia's Total Infrastructure Investment Needs by Sector, 2010-2020 (in 2008 USD billion)

Sector	New Capacity	Replacement	Total
Energy (Electricity)	3.18	0.91	4.09
Telecommunications	0.33	0.73	1.06
Transport	1.76	0.7	2.47
Water and sanitation	0.16	0.23	0.38
Total	**5.42**	**2.57**	**7.99**

In addition to the above overall national infrastructure needs, the total investment needed for these 1,077 regional projects is USD 290 billion—with an average infrastructure investment need of close to USD 30 billion per year.

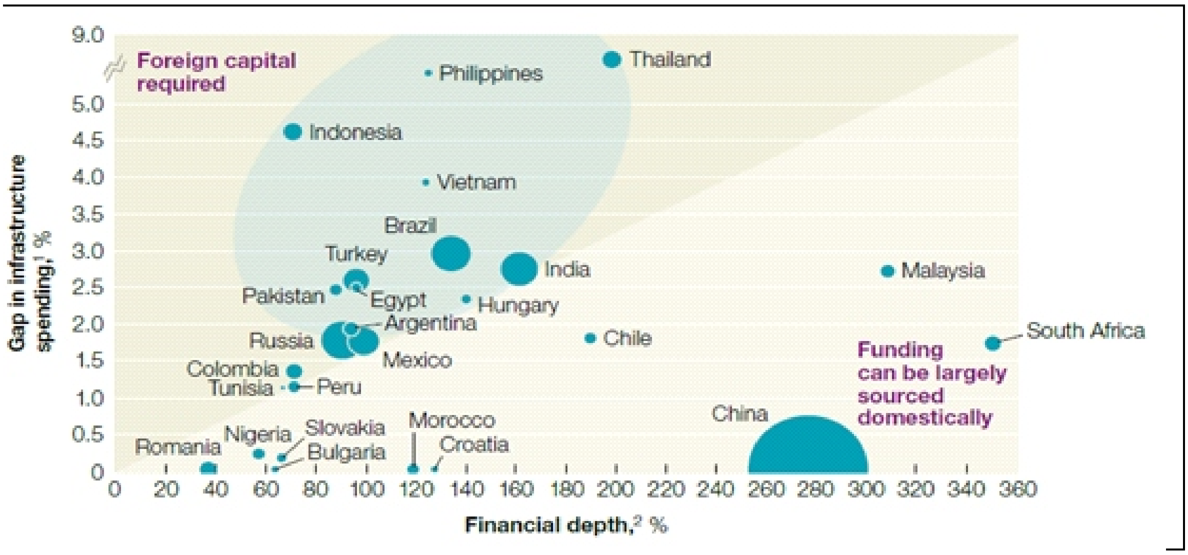
This amounts to an overall infrastructure investment need of USD 8,280 billion (national and regional).

Need for External Capital

Domestic capital markets will not be able to support the infrastructure financing needs

It has been estimated that, across the Asian region, US$ 8 trillion will be spent over the next decade to overcome the historical underinvestment and to accommodate the explosion in domestic output growth. Infrastructure projects in most economies in the region have been traditionally funded by governments or domestic banks. However, rapid economic growth can only take place though investment in infrastructure, through private capital. Governments are now attempting to attract private investments in infrastructure development by formulating enabling PPP policies and frameworks to encourage private participation and phasing out investment restrictions in order to attract foreign investors, thereby increasing the PPP momentum in the country.

Ability of domestic capital markets to address gap in infrastructure spending



Note: 1 Gap in needed vs actual infrastructure spend as percent of GDP, 2009.
2Value of bank deposits, bonds, and equity as percent of GDP, 2009.
Sources: McKinsey Global Institute

Addressing Infrastructure Financing Gap

Financial integration programmes and institutions that mobilize funds for infrastructure projects

Stage of project	Financing requirements	Regional initiatives/ solutions
Pre-investment phase	In the pre-investment phase funds are required for: ▪ Project identification and preparation ▪ Undertaking the project feasibility study ▪ Project appraisal/ approval and contracting	At this stage more than just financial support regional programs and institutions can in capacity building. Examples of such initiatives are: Project incubation facility: Creating a regional institution for incubating infrastrcuture projects based on global best practices in project preparation and provides financing support (e.g. soft loans) for undertaking feasibility studies for infrastrcuture projects. PPP Cell/ Forum: A forum or body that leads a region and sub-region level dialogue for harmonizing PPP polices and regulations and supports development of innovative/ regional PPP projects.
Investment phase	In the investment phase a large amount of funds are required for undertaking detailed engineering and design studies and to undertake construction of the project. This requires: ▪ Equity funding ▪ Project financing	New institutions and markets will be needed to tap savings within the region, to lure private and public foreign capital, and direct them to priority infrastructure projects throughout the region. Examples of such institutions or markets include: ▪ Regional monetary fund or central bank such as the European Monetary Cooperation Fund ▪ Local and regional bond markets such as the ADB's Asian Bond Markets Initiative ▪ Regional infrastructure financing bank for example the Southern African Development Community (SADC)
Post-investment phase	Post constrcution, an infrastructure projects requires financial support for undertaking: ▪ Operations and maintenance ▪ Mid-term monitoring	▪ Regional or sub-regional infrastructure funds that can serve to intermediate (through deposit facilities, bond issuance, and transactions services) the use of the large accumulations of official financial assets for infrastructure and other regional and development projects. ▪ Programs to enhance and integrate equity and bond markets so that construction companies and financial institutions that back projects in the investment phase can optimize their capital and balance sheets by being able to churn their assets once they have 3-5 years of operating history.

Sources: Biswa Nath Bhattacharyay (2010) - Financing Asia's Infrastructure: Modes of Development and Integration of Asian Financial Markets, ADB Working Series

The Way Forward

Issues and Tactical Considerations

Asia's continued growth won't occur in a strategic vacuum. It needs to be supported by strong regional cooperation and stable relations among the major powers in Asia. Growing regional integration requires sustained effort from each nation. The major tactical considerations are highlighted below.

Sources: Report on Currency and Finance, Reserve Bank of India

Marshalling efforts for promoting economic cooperation – Asia, as a whole, will grow only if every nation puts in efforts and prepares a well-planned agenda to promote regional cooperation. The world is becoming increasingly interdependent and Asia needs to embrace this growing trend. Eliminating trade restrictions, increasing FDI in various sectors, and investing in infrastructure in Asian countries is the way to go ahead.

Developing a regional social and environmental agenda - This can take place at various levels among Asian countries. The governments need to promote these agendas via dialogue, diplomacy, international agencies, policy changes, etc. Digital media, tourism, and social networking are great ways to promote regional social cooperation. People from different backgrounds and cultures need to communicate and exchange information and embrace the diversity of cultures apart from their own.

Preparing a coordinated macroeconomic policy - This is essential for the growth of Asia in times to come. Economic policy coordination has helped sustain the world through the financial crisis in 2008. Asian leaders have already seen its impact during the Asian financial crisis in 1997/98. Greece, one of the worst affected euro zone countries in the sovereign debt crisis, was partially rescued by Germany and other countries. Forming a coordinated macroeconomic policy will not accelerate growth but also provide stability and liquidity when economies are contracting, which is essential for the well-being of any nation.

Building integrated financial markets - Financial markets worldwide have witnessed a rise in integration, within as well as across boundaries. Central banks in various parts of the world have made concerted efforts to develop financial markets, especially after experiencing several financial crises. Trade and FDI openness has encouraged domestic institutional and governance reforms that promote trade and investment further. Integration of financial markets brings with it the hope of better risk sharing, more efficient allocation of capital, more productive investment, and ultimately higher standards of living for all, and shall drive stronger regional connections of financial systems across Asia.

Integrating Asian production chains/supply networks - Asia has benefited immensely from the surge in net capital flows to emerging markets in the recent years. However, its constituents cannot exist in a vacuum anymore. Integrating supply chains can result in better performance of Asian countries. Asian leaders need to remove unnecessary steps in the chain, speed up information and material flows, and create long-term partnerships with suppliers and potential customers across the continent to leverage the capabilities of several companies. Managing and coordinating the supply chain, from the raw materials stage to the finished product, can result in cost reductions and better access to inventories. China has already taken the lead at a global stage by playing the role of an assembly hub for final products and the rest of the Asian countries need to follow.

Annexure

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Note: This lists the references that are not already mentioned under sources in the various sections of the report

Other periodicals, reports, working papers and studies

- United Nations Conference on Trade and Development - Trade and Development Report 2012
- International Monetary Fund - World Economic Outlook Update: New Setbacks, Further Policy Action Needed
- United Nations Conference on Trade and Development - World Investment Report 2012: Towards A New Generation Of Investment Policies
- International Monetary Fund - World Economic Outlook (April 2012): Growth Resuming, Dangers Remain

Abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus the People's Republic of China, Japan, and the Republic of Korea
Developing Asia	refers to ADB member countries
EU	European Union
Euro Area	refers to Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom
FDI	Foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
IMF	International Monetary Fund
North America	refers to Canada, Mexico, and the United States
PMI	purchasing managers' index
PPP	purchasing power parity
PRC/ China	People's Republic of China
q-o.q	Quarter-on-quarter
ROW	rest of the world
Saar	seasonally adjusted annualized rate
SAARC	South Asian Association for Regional Cooperation
SAARCFINANCE	Network of central bank governors and finance secretaries of the SAARC region
UN	United Nations
UN Comtrade	United Nations Commodity Trade
US	the United States of America
US$	US Dollars
WEO	World Economic Outlook
WTO	World Trade Organization year-on-year
Y-o-y	

Notes

Notes

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