

## Toward an Integrated, Poverty-Free, and Peaceful East Asia

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As one of the world's most rapidly growing regions, East Asia has increasingly become a major force in the world economy. However, the potential of East Asia has not been fully realized. East Asian markets are still fragmented. The need to eliminate systemic poverty remains the single most urgent challenge for many East Asian developing countries. Development gaps are widening across some countries and within some parts of countries. I believe that regional cooperation and integration in East Asia are desirable and necessary to maximize the region's potential and achieve a vision of an integrated, poverty-free, and peaceful East Asia.

This vision has been articulated by the leaders of East Asia on many occasions. In the Joint Statement on East Asia Cooperation, the leaders of the Association of Southeast Asian Nations, plus China, the Republic of Korea, and Japan (ASEAN+3), agreed, at the Manila summit in 1999, to “promote dialogue and to deepen and consolidate collective efforts with a view to advancing . . . peace, stability and prosperity in East Asia and the world.”<sup>1</sup> The ASEAN+3 Summit, in Phnom Penh, Cambodia, in November 2002, endorsed 26 concrete recommendations of the East Asia Study Group to accelerate regional integration in East Asia, address poverty reduction, narrow development disparities, and maintain peace and stability in East Asia (see Annex 1).<sup>2</sup> The First East Asia Summit, in Kuala Lumpur on December 14, 2005, reaffirmed the desire “of creating a peaceful environment [in East Asia] by further enhancing cooperation and strengthening the existing bonds of friendship among our countries in keeping with the principles of equality, partnership, consultation and consensus.”<sup>3</sup> The summit underscored the need for “promoting development, financial stability, energy security, economic integration and growth, eradicating poverty and narrowing the development gap in East Asia through technology transfer and infrastructure development, capacity building, good governance and humanitarian assistance and promoting financial links, trade and investment expansion and liberalization.”<sup>4</sup>

Regional cooperation and integration are key instruments in achieving peace, prosperity, and equity in East Asia. They help mobilize concerted efforts across East Asia to sustain economic growth, reduce poverty, and close development gaps, which, collectively, provide an economic basis for regional peace. In the following sections, I will review trends that contribute to the integration of East Asian economies. Subsequently, I will examine challenges associated with the evolution of these trends. I will then try to articulate how regional cooperation and integration may help economies in the region achieve their vision of an integrated, poverty-free, and peaceful East Asia.

### **East Asian economic integration**

There are three major trends that contribute to the integration of the East Asian economies: trade, investment, and finance. One of the fundamental economic factors contributing to East Asian integration is deepening regional economic interdependence through trade and investment. Intraregional trade and investment in East Asia have risen rapidly over the last two decades. The continuous domestic trade and investment liberalization efforts undertaken

by many economies, the substantial realignment of major exchange rates, particularly the yen-dollar exchange rates in the 1980s, and the remarkable technical progress achieved in information and communications technologies that has reduced communication and logistics costs have been among the most important external factors that have led to rapid increases in intraregional trade and investment flows (Kawai 2005a).

While intraregional trade in Central Asia and South Asia is still at a low level, intraregional trade in East Asia has risen rapidly over the past 25 years. It accounted for 55 percent of East Asia's total trade, including Japan, in 2004, up sharply from the 35 percent in 1980. This share is higher than the 46 percent figure for the North American Free Trade Agreement and only modestly lower than the 62 percent figure for the 15 "old" European Union countries and the 68 percent for all 25 European Union countries (see table 9.1).

The favorable macroeconomic environment and the abundant supply of well-educated low-wage labor also contributed to the expansion of inflows of foreign direct investment (FDI). Since 1980, FDI flows into East Asia have more than quadrupled, reaching 31 percent of world FDI inflows in 2004. Over the same period, East Asia's sustained dynamism fueled an increase in FDI outflows from 5 to 14 percent of world outflows. Notably, much of these flows have been intraregional, from Japan and the newly industrialized economies (NIEs), that is, Hong Kong (China), the Republic of Korea, Singapore, and Taiwan (China), to the countries of ASEAN, plus China, and from the ASEAN countries to one another and to China.

Trade and investment flows have created a virtuous cycle in East Asia. The provision of FDI in the region has been part of the strategy of multinational corporations to relocate their labor-intensive manufacturing production to lower-cost economies and to integrate these offshore production bases into a coherent network of supply chains. Hence, such FDI has generated exports of capital goods and key parts and components from the source economy to recipient economies, exports and imports of intermediate and semifinished products among the FDI-host economies, and imports of finished products to the source economy. Japan took a lead in establishing these sorts of production networks, and it was soon followed by the Asian NIEs and then by some middle-income ASEAN countries, Malaysia and Thailand for instance. Other emerging economies in East Asia—China, Indonesia, the Philippines, and, more recently, Vietnam—also participate in the networks, mainly as FDI recipients because of their different stages of industrial development.

In addition, recent years have also seen a growing number of government-led initiatives to promote free trade areas (FTAs) in East Asia and beyond (see table 9.2). ASEAN accelerated its trade cooperation initiative by advancing the deadline for the implementation of the ASEAN Free Trade Area from 2008 to 2002; the implementation of the ASEAN Free Trade Area was thus begun about six years in advance. ASEAN has established closer economic partnerships with its major trading partners, that is, Australia, China, India, Japan, Korea, and New Zealand, through a series of economic partnership agreements; one of the outcomes of these agreements has been the establishment of various FTAs involving ASEAN and these countries.<sup>5</sup>

ASEAN has also made important progress in regional investment cooperation. Under the ASEAN Framework Agreement on the ASEAN Investment Area, signed in Manila in October 1998, ASEAN countries are committed to opening the manufacturing, agriculture, forestry, fisheries, and mining sectors and to granting national treatment to ASEAN investors by 2010 and to all regional investors by 2020. In Northeast Asia, Japan and Korea signed, in March 2002, the Agreement for the Liberalization, Promotion, and Protection of Investment. Under this agreement, each country extends equal treatment to investors of the other country, except in

certain areas (ASEAN 2002).

**TABLE 9.1. Intraregional Trade Share, 1980–2004**

*percent*

| <i>Region</i>                      | <i>1980</i> | <i>1985</i> | <i>1990</i> | <i>1995</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| East Asia-15 <sup>a</sup>          | 35          | 37          | 43          | 52          | 52          | 52          | 54          | 55          | 55          |
| Emerging East Asia-14 <sup>b</sup> | 22          | 28          | 33          | 39          | 41          | 41          | 43          | 44          | 44          |
| ASEAN+3                            | 30          | 30          | 29          | 38          | 37          | 37          | 38          | 38          | 39          |
| NIE-4 <sup>c</sup>                 | 6           | 7           | 12          | 16          | 16          | 15          | 15          | 15          | 14          |
| ASEAN 10 <sup>d</sup>              | 18          | 20          | 19          | 24          | 25          | 24          | 24          | 24          | 24          |
| SAARC <sup>e</sup>                 | 4           | 3           | 3           | 4           | 4           | 4           | 5           | 6           | 5           |
| Central Asia <sup>f</sup>          | —           | —           | —           | —           | 7           | 7           | 6           | 6           | 5           |
| NAFTA <sup>g</sup>                 | 34          | 39          | 38          | 43          | 49          | 49          | 48          | 47          | 46          |
| Mercosur <sup>h</sup>              | 11          | 7           | 11          | 19          | 20          | 18          | 14          | 15          | 15          |
| Old European Union 15 <sup>i</sup> | 61          | 60          | 66          | 64          | 62          | 62          | 63          | 63          | 62          |
| New European Union 25 <sup>j</sup> | 61          | 60          | 67          | 67          | 67          | 67          | 68          | 69          | 68          |

*Sources:* Adapted from Kawai 2005b; based on data from IMF (2006) and the CEIC Asia Database (CEIC Data. <http://www.ceicdata.com/economic.htm>).

*Note:* Intraregional trade share is defined as:  $X_{ii} / \{(X_i + X_i)/2\}$ , where  $X_{ii}$  is exports of region  $i$  to region  $i$ ;  $X_i$  is total exports of region  $i$  to the world; and  $X_i$  is exports of the world to region  $i$ . — = no data are available.

a. East Asia-15 encompasses Emerging East Asia 14, plus Japan.

b. Emerging East Asia-14 encompasses ASEAN 10, plus China, Hong Kong (China), the Republic of Korea, and Taiwan (China).

c. NIE-4 are the newly industrialized economies of Hong Kong (China), the Republic of Korea, Singapore, and Taiwan (China).

d. ASEAN encompasses Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

e. SAARC is the South Asian Association for Regional Cooperation (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka).

f. For purposes of this table, Central Asia encompasses Afghanistan, Azerbaijan, China, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

g. NAFTA is the North American Free Trade Agreement (Canada, Mexico, and the United States).

h. Mercosur is the Southern Cone Common Market (Argentina, Brazil, Paraguay, Uruguay, and Venezuela).

i. Old European Union 15 encompasses Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

j. New European Union 25 encompasses the old European Union 15, plus Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia.

Financial and macroeconomic interdependence in East Asia has also deepened as a result of market-driven financial integration, including deregulation of the financial system, the opening of financial services to foreign institutions, and the liberalization of the capital account (Kawai 2005b). Macroeconomic interdependence in East Asia has become stronger following the

contagious impact of the 1997–98 Asian financial crisis, which prompted East Asian economies to realize the importance of managing financial openness and macroeconomic interdependence at the regional level through closer cooperation. As a result, various initiatives have been launched to institutionalize regional financial and macroeconomic interdependence. For example, ASEAN+3 has undertaken the Chiang Mai Initiative, an economic surveillance and policy dialogue, and initiatives for the development of local-currency bond markets (the Asian Bond Markets Initiative). These initiatives have demonstrated a commitment by the region's leaders to seek cooperative regional solutions to common economic and financial problems.

**TABLE 9.2. FTAs and Economic Partnership Agreements in East Asia, April 2006**

| <i>In effect</i>                                    | <i>Under official negotiation</i>                     | <i>Under consultation or study</i>   |
|---|---|--------------------------------------|
| Asia-Pacific Trade Agreement (1976)                 | Singapore-Mexico (July 2000)                          | Japan-Australia                      |
| Lao PDR-Thailand (1991) <sup>a</sup>                | Singapore-Canada (January 2002)                       | Japan-Chile                          |
| ASEAN FTA (1992)                                    | Singapore-Chile                                       | Japan-India                          |
| Singapore-New Zealand (January 2001)                | Singapore-Pacific-3 (CER, Chile) <sup>b,c</sup>       | Japan-Switzerland                    |
| Japan-Singapore (November 2002)                     | Hong Kong (China)-New Zealand (November 2000)         | Japan-China-Korea, Rep. of           |
| Singapore-Australia (2003)                          | Japan-Philippines (agreed in principle November 2004) | China-India                          |
| Singapore-EFTA (January 2003) <sup>d</sup>          | Japan-Malaysia (signed December 2005)                 | Korea, Rep. of-Australia             |
| Singapore-United States (January 2004)              | Japan-Thailand (agreed in principle August 2005)      | Korea, Rep. of-New Zealand           |
| Singapore-Jordan (2004)                             | Japan-Korea, Rep. of (December 2003)                  | Korea, Rep. of-India                 |
| China-Hong Kong (China) (January 2004)              | Japan-ASEAN (November 2005)                           | Korea, Rep. of-United States         |
| China-Macao SAR (China) (January 2004) <sup>e</sup> | Japan-Indonesia (July 2005)                           | Korea, Rep. of-Mercosur <sup>f</sup> |
| Korea, Rep. of-Chile (April 2004)                   | China-New Zealand (December 2004)                     | Korea, Rep. of-China                 |
| Thailand-India (September 2004)                     | China-Australia (May 2005)                            | Singapore-Taiwan (China)             |
| Thailand-Australia (January 2005)                   | Korea, Rep. of-Canada (July 2005)                     | ASEAN-European Union                 |
| Japan-Mexico (April 2005)                           | Korea, Rep. of-Mexico (early 2006)                    | Malaysia-India                       |
| China-ASEAN (July 2005)                             | Korea, Rep. of-United States                          | Indonesia-India                      |
| Singapore-India (August 2005)                       | Thailand-Bahrain (signed)                             | n.a.                                 |
| Thailand-New Zealand (2005)                         | Thailand-Peru (agreed April 2004)                     | n.a.                                 |
| Korea, Rep. of-Singapore (2006)                     | Thailand-United States (June 2004)                    | n.a.                                 |
| Korea, Rep. of-EFTA (2006) <sup>d</sup>             | Malaysia-Australia (May 2005)                         | n.a.                                 |
| China-Chile (2006)                                  | Malaysia-New Zealand                                  | n.a.                                 |
| Singapore-Panama (2006)                             | Malaysia-United States                                | n.a.                                 |
| Korea, Rep. of-ASEAN (July 2006)                    | ASEAN-India (January 2004)                            | n.a.                                 |
|   | ASEAN-CER (February 2005) <sup>c</sup>                | n.a.                                 |
|   | ASEAN-Australia-New Zealand                           | n.a.                                 |

Source: Kawai 2005b.

Note: The shaded cells indicate those arrangements within East Asia, that is, ASEAN+3, Hong Kong (China), and Taiwan (China). n.a. = not applicable.

a. Lao People's Democratic Republic.

b. The Pacific-3 are Chile, New Zealand, and Singapore.

c. CER is the Australia and New Zealand Closer Economic Relations Trade Agreement.

d. EFTA is the European Free Trade Association (Iceland, Liechtenstein, Norway, and Switzerland).

e. Macao Special Administrative Region (China).

f. Mercosur is the Southern Cone Common Market (Argentina, Brazil, Paraguay, Uruguay, and Venezuela).

In summary, all these trends have underscored that East Asian economies have achieved strong economic interdependence, particularly through market-driven integration with global and regional economies. Expansion in trade, in direct investment, and in financial flows has created a naturally integrated economic zone in East Asia. In addition, East Asia has embarked on a series of regional initiatives to institutionalize and manage its economic interdependence (Kawai 2005b).

## Challenges for East Asia

In reviewing these trends toward regional economic cooperation and integration, one should remember that East Asia is facing numerous challenges. One of the biggest challenges is

the urgent need for poverty reduction and the need for social improvements in developing countries. The impressive growth of East Asia in the past three decades has been accompanied by a dramatic decline in absolute poverty. Despite the abrupt intermission caused by the 1997–98 Asian financial crisis, the share of the population living on less than US\$1 a day fell from 34 to 19 percent in Asia as a whole between 1990 and 2003. There were 233 million fewer people living in extreme poverty in Asia in 2002 compared to 1990. East Asia contributed much to this progress. China accounted for 75 percent of the decline of 233 million people living in extreme poverty in Asia. Southeast Asia accounted for around 48 million people in the decline. China, Indonesia, Malaysia, Thailand, and Vietnam may well have already achieved, by 2005, the Millennium Development Goal of halving US\$1-a-day poverty incidence by 2015.

Despite major achievements in reducing absolute poverty, systemic poverty across the region remains the single most urgent economic and social challenge. More than 620 million Asians still live on less than US\$1 a day, and about 1.9 billion live on US\$2 a day. A quick assessment of the incidence rate of US\$2-a-day poverty in East Asian developing countries will reveal that the battle to eradicate poverty is evidently far from coming to a close. The large percentages of poor in terms of the US\$2-a-day poverty line also highlight the vulnerability of those people who have escaped US\$1-a-day poverty. In other words, adverse economic shocks faced by poor people who are rising out of US\$1-a-day poverty could easily reverse their economic and social fortunes.<sup>6</sup>

Another challenge for East Asia is the widening development gap among the economies, as well as within each of the economies. East Asia is a diverse region (see table 9.3). The combined population of East Asia is about 1.5 billion people (about 40 percent of Asia's population and a quarter of the world's population), with populations ranging from 2.5 million in Mongolia to 1.3 billion in China. The total gross domestic product (GDP) of East Asia is about US\$7 trillion. Three of the 10 largest economies in the world are now in East Asia (China, Japan, and Korea), but so are least developed economies such as Cambodia and the Lao People's Democratic Republic (PDR). While Hong Kong, Japan, Singapore, and Taiwan are among the richest economies in the world, with annual per capita income in the US\$20,000–US\$40,000 range, countries such as Cambodia, Lao PDR, Mongolia, and Myanmar remain among the poorest, with annual per capita income of less than US\$500.

Environmental degradation and communicable diseases constitute other challenges for East Asia. The region's rapid economic growth has brought tremendous benefits in terms of poverty reduction. But there are rising concerns over the adverse environmental consequences of rapid economic growth that, in some countries, threaten to undermine the economic gains. Many environmental problems are transboundary in nature, so that addressing them requires coordinated regional actions. The current environmental challenges range from dealing with serious air pollution and global climate change to management of transboundary rivers and protected areas. The region must also learn to deal with the burgeoning volumes of waste products, many of which are hazardous. Several of the most important environmental problems faced by the region, particularly the deteriorating air quality and increasing greenhouse gas emissions, have their origin in the energy sector. Energy use in many developing countries in East Asia is characterized by rapid growth and the dominant use of fossil fuels. The current pattern of energy consumption growth is becoming unsustainable from both environmental and energy-security perspectives. By 2020, greenhouse gas emissions in Asia are projected to account for 32 percent of global emissions from the energy sector, much of this coming from East Asia. The threat to the global environment needs to be addressed at both the national and the

regional levels. The seriousness of the situation is underlined by the fact that, following on current trends, some large countries in the region seem certain to rely mainly on indigenous coal in the future (see Annex 2).

**TABLE 9.3. Selected Indicators for East Asian Economies**

| Country     | Population<br>(millions) <sup>a</sup> | GDP per capita<br>(US\$) |       | GDP growth<br>(%) <sup>b</sup> | Poverty index (head-count ratio, %) <sup>c</sup> |      |      |             |      |      |
|-------------|---------------------------------------|--------------------------|-------|--------------------------------|--|------|------|-------------|------|------|
|             |                                       | 1990                     | 2003  |                                | US\$1 a day                                      |      |      | US\$2 a day |      |      |
|             | 2004                                  | 1990                     | 2003  | 2007                           | 1990   | 2003 | 2015 | 1990        | 2003 | 2015 |
| China       | 1,300                                 | 364                      | 1,067 | 8.9                            | 33.0   | 13.4 | 0.1  | 72.2        | 41.6 | 7.0  |
| Indonesia   | 216                                   | 612                      | 874   | 6.5                            | 20.5   | 6.5  | 0.4  | 70.9        | 50.5 | 22.6 |
| Philippines | 84                                    | 921                      | 1,035 | 5.0                            | 19.7   | 14.1 | 0.5  | 54.9        | 44.4 | 26.8 |
| Vietnam     | 82                                    | 226                      | 470   | 7.5                            | 50.7   | 9.7  | 0.1  | 87.4        | 54.2 | 18.5 |
| Thailand    | 64                                    | 1,427                    | 2,227 | 6.0                            | 10.1   | 0.7  | 0.0  | 43.3        | 27.8 | 8.5  |
| Malaysia    | 26                                    | 2,498                    | 4,011 | 5.8                            | 0.6  | 0.2  | 0.0  | 11.4        | 9.0  | 0.2  |
| Cambodia    | 14                                    | —                        | 314   | 4.7                            | 46.0   | 33.8 | 10.6 | 84.3        | 77.3 | 51.9 |
| Lao PDR     | 6                                     | 227                      | 359   | 5.8                            | 52.7   | 28.8 | 2.4  | 91.1        | 74.4 | 47.4 |
| Mongolia    | 3                                     | 608                      | 424   | 7.5                            | 28.0   | 18.9 | 5.7  | 70.8        | 63.9 | 35.4 |

Sources: ADB 2005a, 2005b; World Bank 2006.

Note: — = no data are available.

a. Mid-year population.

b. Projections of the Asian Development Bank.

c. For 2015 data, the projections are based on benchmark growth and more equitable distribution.

Greater integration, crossborder mobility, and migration facilitate human contacts and loosen social restrictions, but they thereby play an important role in the spread of communicable diseases. It is estimated that, by 2010, Asia as a whole will overtake Africa in the number of HIV/AIDS cases. Apart from being a great human tragedy for the patients and their families, the continuing spread of HIV/AIDS also entails significant economic losses, particularly for developing economies of East Asia in which labor-intensive industries still have a critical part in economic development. The pandemic threatens to reverse hard-earned gains in poverty reduction in the region. Severe acute respiratory syndrome (SARS), which first appeared in East Asia in 2003, was quickly recognized as a global threat. SARS was barely contained when the first series of H5N1 avian influenza outbreaks were observed in the region. If the influenza virus mutates or combines with existing human influenza viruses, it may acquire the capacity to spread more easily among humans, resulting in a human influenza pandemic. The World Health Organization estimates that 2–7 million people could die in an influenza pandemic worldwide. In November 2005, the Food and Agriculture Organization of the United Nations estimated the total cost of avian influenza outbreaks at US\$10 billion. Loss of poultry due to disease and culling has already pushed many rural households into poverty. If a pandemic starts, it would have the potential to halt economic growth in East Asia (see Annex 2).

### The road ahead

What should East Asia do to respond to these challenges? One of the major challenges to be overcome in combating systemic poverty in the region is the lack of high-quality infrastructure to support economic activity and trade and contribute to job creation. In most developing countries in the region, inadequate and poor-quality power supplies, inefficient transport systems,

insufficiently connected or maintained roads, inadequate and aging railroad networks, badly equipped and congested ports and airports, unreliable communications systems, and poor urban infrastructure raise transaction and logistics costs, curtail productivity, and often render investment unviable (ADB 2006a). However, infrastructure investment requires enormous amounts of financial and technical resources. Infrastructure development in East Asia alone will need approximately US\$200 billion annually over the next five years, a level of investment far beyond the fiscal capacity of national governments (ADB, JBIC, and World Bank 2005). The private sector has been reluctant to support infrastructure projects because of the large, lumpy investments, long gestation periods, and high risks involved.

To mobilize the necessary resources, countries will have to work together to strengthen regional capital markets in East Asia. It is ironic that East Asia's massive needs for infrastructure investment go unmet, while excess savings find their way to global capital markets. One reason is that East Asian savings are not being efficiently intermediated by the regionwide financial system. It is difficult for intermediaries and savers to find the right investment opportunities in the region. Financial market infrastructure is underdeveloped in many respects, and investor concerns include inefficient pricing and low liquidity. Perceived weaknesses in legal transparency and in regulatory frameworks may also be responsible for discouraging active investment. These issues obviously need to be resolved. By ensuring that more of East Asia's savings remain invested in the region, East Asia might also make a significant contribution to correcting global payment imbalances.

Bilateral or multilateral FTAs often produce desirable outcomes by inducing the participating economies to implement the needed structural reforms. However, there is a risk that the current proliferation of FTAs might sustain market fragmentation in markets in East Asia rather than bringing markets together into a single market. Free trade agreements vary widely in scope, rules, and participation and create an "Asian noodle bowl" effect. The administrative costs associated with managing various types of rules of origin in overlapping FTAs are prohibitively high, particularly for small- and medium-sized trade-oriented firms. If excessively burdensome, rules of this kind can limit rather than promote freer trade and investment. The proliferation of FTAs presents challenges for harmonization and broader integration. Thus, it is important to bring greater coherence to the growing number of overlapping regional trade agreements in East Asia so that they do not become a stumbling block to regional and global trade expansion.

To avoid the noodle bowl effect and maximize the potential benefits of FTAs, East Asia has to draft a clear road map to establish a regionwide FTA (ASEAN 2002). The existing efforts in East Asia such as the ASEAN Free Trade Area and various FTAs between ASEAN and Northeast Asian countries could pave the way for the establishment of an East Asia FTA. Such an FTA should cover not only trade in goods, but also trade in services, investment, and coordination in other regulatory and standards areas. It is important to study the benefits, challenges, and implications of an integrated and comprehensive FTA in East Asia and explore the appropriate architecture.

East Asian economies should also encourage investment among themselves and dismantle barriers to investment. The importance of FDI for the economic development of developing countries is well established. In most cases, investment (including FDI) has a positive impact on direct poverty reduction (Mirza 2002). Developing countries with larger flows of investment generally demonstrate greater success in economic growth and poverty reduction. Economies such as China and Southeast Asian countries that have received most of the FDI over the last two decades accounted for the bulk of the decline in extreme poverty in Asia during

1990–2002. At the ASEAN+3 Summit in November 1999, the ASEAN+3 leaders agreed to strengthen efforts in accelerating investment. The best strategy to increase investment flows is to create an attractive investment climate. This includes establishing sound macroeconomic fundamentals, removing restrictions on investment, providing adequate industrial and social infrastructure, offering tax and other incentives, and putting in place transparent and nondiscriminatory legal frameworks with well-functioning enforcement capabilities.

The high levels of intraregional trade in East Asia, which are comparable to those in the European Union before the 1992 Maastricht Treaty, indicate that even small intraregional exchange rate misalignments may disturb trade and investment flows and build difficulties for regional economies. Indeed, the lack of coordination of exchange rate mechanisms among East Asian economies exacerbated the impact of the 1997–98 Asian financial crisis. East Asian economies are now aware of the critical role of exchange rates for regional financial stability, which is a basis for sustained economic growth, development, and poverty reduction. This underscores the need for intraregional exchange rate policy coordination in the years to come (Kuroda 2006). An important step is to bring greater intraregional exchange rate stability and to help rebalance sources of growth away from the external sector into domestic demand. Given the growing payment imbalances, East Asia needs to see exchange rates that are flexible toward the rest of the world, but relatively stable within the region. There are some encouraging signs thus far. China has started to adjust the renminbi exchange rate and move to greater exchange rate flexibility. This is encouraging given that Korea, Singapore, and Thailand have adopted a de facto or de jure managed floating exchange rate regime with reference to a basket of major currencies (Kawai 2006).

One option for facilitating greater exchange rate policy coordination across countries in the region might be to introduce an Asian currency unit. The unit—a weighted basket of the national currencies of Asia—might facilitate the monitoring of both the collective movement of Asian currencies against major external currencies, such as the U.S. dollar and the euro, and the individual movement of each component currency against the regional average of the unit. The unit might also promote the development of an Asian multicurrency bond market and a deepening of capital markets that would help reduce exposure to external shocks (Kuroda 2006).

Within the ASEAN+3 finance ministers process, there have been recent advances toward doubling the size of the existing swaps under the Chiang Mai Initiative, integrating the initiative with the economic surveillance mechanism, and increasing the percentage of funds that can be disbursed when required. The finance ministers have also agreed on a collective decision-making formula for the mobilization of the Chiang Mai Initiative, the first step toward multilateralization. Additional steps might be taken to expand the initiative to a more solid, multilateral regional financing facility and to make the ASEAN+3 economic surveillance mechanism more effective, for example, by putting it in line with the best practices of the G-7 or the Organisation for Economic Co-operation and Development's Working Party 3 or Economic Policy Committee. It might also be useful for Central Bank governors to join the finance ministers process in fostering effective economic surveillance and policy dialogue.

Significant efforts are needed to address the development gaps in East Asia, which are widening because of the disparities in the level of economic development among regional economies. Intraregional trade and investment might be a propelling force to close these gaps. The establishment of a generalized system of preferences status and of preferential treatment for the least developed countries would substantially improve the competitiveness of exports from these countries. A good example of such an initiative is the ASEAN Integration System of

Preferences, whereby, since January 1, 2002, preferential tariffs of between 0 and 5 percent may be offered to the less developed members (Cambodia, Lao PDR, Myanmar, and Vietnam) by the more developed members on a voluntary and bilateral basis. The scheme is being implemented through products proposed by the less developed members. Indonesia, Malaysia, the Philippines, and Thailand have issued legal enactments to realize the scheme.<sup>7</sup>

Environmental issues are fundamental to East Asia's economic future. Coordinating the crossborder dimensions of environmental issues is a key area as part of efforts to provide regional public goods. Major endeavors include coordinating environmental initiatives among national and subregional organizations; harmonizing standards, regulations, and laws; addressing air pollution, land degradation, and global climate change; and widening the range of financing sources for environmental investments (see Annex 2).

The fight against communicable diseases should be multipronged. Crucial elements include generating awareness, improving coordination among stakeholders, strengthening monitoring capacity, and developing a flexible regional response capacity. There is a growing recognition of the need to strengthen the commitment of stakeholders, build capacity at the national and regional levels, and undertake targeted programs for the benefit of sectors and the poor. With the increasing permeability of international boundaries, the role of regional cooperation in regional public goods to fight the spread of communicable diseases will remain critical (see Annex 2).

## **Conclusion**

The emergence of an integrated East Asia is inevitable and necessary. Strong economic interdependence—particularly through the market-driven expansion of trade, investment, and financial flows—has created a “naturally” integrated economic zone in East Asia. Increasing economic interdependence was one of the main reasons for the contagious impact of the 1997–98 Asian financial crisis. Economic interdependence and the crisis experience have led East Asian economies to intensify their collective efforts to manage this growing economic interdependence. Governments have started to embark on various regional initiatives to promote cooperation in infrastructure, trade and investment, money and finance, and other crossborder issues.

Poverty reduction remains a major developmental challenge for many developing countries in East Asia. Development gaps are also imposing major hurdles to the greater integration of East Asia. Within this context, East Asia should focus on economic cooperation and integration, while ensuring that the region's integration will be economically sustainable, socially inclusive, and environmentally sound. Broadbased support for this process will certainly help realize the vision of an integrated, poverty-free, and peaceful East Asia.

## **Annex 1. Recommendations of the East Asia Study Group (2002)**

### **Short-term measures (17 concrete measures)**

- Form an East Asia business council
- Establish generalized system of preferences status and preferential treatment for the least developed countries
- Foster an attractive investment environment for increased foreign direct investment
- Establish an East Asian investment information network
- Develop resources and infrastructure jointly for growth areas and expand financial resources for development with the active participation of the private sector
- Provide assistance and cooperation in four priority areas: infrastructure, information technology, human resources development, and ASEAN regional economic integration
- Cooperate through technology transfers and joint technology development
- Develop information technology jointly to build telecommunications infrastructure and to provide greater access to the Internet
- Build a network of East Asian think-tanks
- Establish an East Asia Forum
- Implement a comprehensive human resources development program for East Asia
- Establish poverty alleviation programs
- Take concerted steps to provide access to primary health care for the people
- Strengthen mechanisms for cooperation on nontraditional security issues
- Work together with cultural and educational institutions to promote a strong sense of identity and an East Asian consciousness
- Promote networking and exchanges of experts in the conservation of the arts, artifacts, and cultural heritage of East Asian countries
- Promote East Asian studies in the region

### **Medium-term and long-term measures and those that require further studies (9 concrete measures)**

- Form an East Asian Free Trade Area
- Promote investment by small and medium enterprises
- Establish an East Asia investment area by expanding the ASEAN investment area
- Establish a regional financing facility
- Pursue a more closely coordinated regional exchange rate mechanism
- Pursue the evolution of the ASEAN+3 Summit into an East Asian Summit
- Promote closer regional marine environmental cooperation for the entire region
- Build a framework for energy policies and strategies and action plans
- Work closely with nongovernmental organizations in policy consultation and coordination to encourage civic participation and state–civil society partnerships in tackling social problems

*Source:* ASEAN 2002, 4.

## **Annex 2. Selected Regional Public Goods Supported by the Asian Development Bank**

The provision of regional public goods is a key element of the approach of the Asian Development Bank (ADB) to regional cooperation and integration. The ADB promotes regional public goods by supporting a variety of actions. The key areas of ADB's focus are the environment, clean energy and energy efficiency, natural disaster responses, communicable disease, governance and anticorruption, and human trafficking. The next few paragraphs describe the challenges faced, the progress made, and the experience gained in promoting regional public goods by the ADB and other development partners in the region.

### **Environment**

1. Asia's rapid economic growth has brought tremendous benefits to the region, but there is rising concern over its adverse environmental consequences, which threaten to undermine the economic gains the region has achieved. Many environmental problems are transboundary in nature, and addressing them effectively requires coordinated regional actions. The current challenges range from dealing with serious air pollution and global climate change to managing transboundary rivers and protected areas. The region must also learn to deal with the burgeoning volumes of waste products, many of which are hazardous.

2. These issues are fundamental to the region's economic future, as well as the health and safety of its people. Along with other donors, the ADB is actively seeking to address these concerns. Coordinating the crossborder dimensions of the environment is a key area of ADB's support for providing regional public goods, as there are few regional frameworks for managing the environment. Major areas include coordinating environmental initiatives among national and subregional organizations; harmonizing standards, regulations, and laws, sometimes in conjunction with trade integration; addressing air pollution, land degradation, and global climate change; and widening the range of financing sources for environmental investments. Among its initiatives, the ADB has played a leading role in helping the East Asian countries find appropriate measures to address the ongoing problem of dust- and sandstorms that arises primarily from the overuse of fragile drylands in western China and Mongolia. The ADB also played a key role in the ASEAN Agreement on Transboundary Haze Pollution (June 2002), which provides a legal framework to facilitate regional cooperation in addressing the crossborder impacts of haze pollution. In partnership with the United Nations Economic and Social Commission for Asia and the Pacific, the United Nations Environment Programme, and the United Nations Convention to Combat Desertification, the ADB has worked with the governments of China, Japan, Korea, and Mongolia to develop an action plan and design a regional network for the prediction and monitoring of major storm events. As host to the secretariat of the Clean Air Initiative for Asian Cities, the ADB also supports work on a range of other national and regional air pollution concerns.

3. In the Greater Mekong Subregion (GMS),<sup>8</sup> the ADB is working with governments and a number of international and local partners to create a new approach to protecting and managing natural areas. Furthermore, the Biodiversity Corridors Initiative in the GMS is piecing together a network of transboundary protected areas linked with measures to manage adjacent forests, wetlands, and other valuable ecosystems sustainably. Among other benefits, this will preserve

the economic value of ecological services provided by these areas, such as the protection of water supplies, while also maintaining the basis for rapidly expanding ecotourism.

4. The ADB is also beginning to work more closely with governments of the region on policies and practices for improved waste management, including issues related to trade in recyclable and reusable products. There is expanding demand for investments to improve municipal solid waste management services, and the ADB will bring to its assistance programs fresh perspectives and knowledge on international best practices on the minimization of waste generation, reuse, and recycling, as well as innovative financing, such as the use of global carbon markets to fund methane gas capture from landfills.

5. With proper attention to both the domestic and the regional environmental concerns arising from Asia's rapid economic growth, the region's development can move forward in an environmentally sustainable manner. This will incur new costs and will not be an easy adjustment, but both the governments and the people of the region increasingly recognize the importance of establishing environmental quality as an integral part of Asia's new prosperity.

### **Clean energy and energy efficiency**

6. A major portion of the environmental problems faced by the region, particularly the deteriorating air quality and increasing greenhouse gas emissions, have their origin in the energy sector. Energy use in Asia is characterized by rapid growth and the dominant use of fossil fuels. The current pattern of energy sector growth is becoming unsustainable from both environmental and security perspectives. By 2020, greenhouse gas emissions in the region are projected to account for 32 percent of global emissions from the energy sector. The threat to the global environment emerging from energy sector growth in the region needs to be addressed at both the national and regional levels. The seriousness of the situation is underlined by the fact that some large countries in the region are likely to rely mainly on indigenous coal in the future.

7. Despite greater recognition of the problems, there are few long-term strategies for adopting cleaner technologies such as energy efficiency, renewable energy, and clean coal technologies. The region's substantial potential for cost-effective renewable energy and energy efficiency improvements remains largely untapped due to market, financial, institutional, structural, and policy barriers. Although many ADB developing member countries have enabled clean energy legislation and set targets, the implementation barriers persist. Much of the knowledge and technology required to address energy and environmental challenges can be generated more efficiently and effectively at the regional level. Furthermore, there are significant opportunities for crossborder energy supply, which can support a more environment-friendly energy consumption pattern in the region.

8. ADB's energy policy emphasizes renewable energy and energy efficiency in developing member countries. The policy also recommends focusing on regional and global environmental impacts and enhancing regional cooperation and trade in the energy sector. In terms of regional public goods, ADB's contribution in the area of clean energy includes systematically studying the implementation barriers across countries. The ADB has also strongly supported the development of regional energy markets, regional energy trade, regional power transmission and

gas pipelines, and related institution-building efforts to promote energy efficiency and energy security. For example, the ADB cofinanced the Nam Theun 2 Hydropower project involving power trades between Lao PDR and Thailand. The ADB also provided technical assistance for developing an efficient and competitive GMS power market.

9. As part of its regional efforts in the area of clean energy, the ADB has brought together donor trust funds<sup>9</sup> under its Renewable Energy, Energy Efficiency, and Climate Change Program to support capacity building, institutional development, and project development activities. In August 2003, the ADB set up a Clean Development Mechanism Facility to provide additional support for projects in the area of renewable energy and energy efficiency, carbon sequestration, and adaptation. In July 2005, the ADB established the Energy Efficiency Initiative to compile and analyze existing knowledge and experience on energy efficiency policies and formulate a clean energy investment strategy with an indicative lending target of US\$1 billion per year over the next few years. Another significant step by the ADB is the creation of the Carbon Market Initiative, a proposal to establish a cofinancing facility that aims to provide finance and marketing support to developers and sponsors of projects with a carbon credit content. In 2006, the ADB will be reviewing its energy policy, which will also address clean energy and energy efficiency issues from both country and regional perspectives.

10. There is an increasing sense that the growth of the energy sector in this region will substantially determine future global warming. Given its dynamic track record, the region will certainly face up to this challenge successfully through innovation, adjustments, and collective action. However, the role of developed countries in terms of funding support and the transfer of technology during the initial period will remain critical.

### **Natural disaster response**

11. The recent tsunami in Asia highlighted the crossborder impact of natural disasters and underlined the need to create appropriate regional public goods to address such problems collectively. In the recent past, Asia has been one of the most disaster-prone regions in the world, and the need for policy coordination in disaster response has been increasing in the region. The tsunami experience required a high degree of coordination of donor response. The ADB played a critical role in those regional efforts by organizing a high-level meeting and developing a tracking matrix with the help of other donors. With its own contribution of US\$600 million, the ADB also established the Asian Tsunami Fund as a regional facility for others to contribute to this unprecedented human tragedy. Another key regional public good required for facing natural disasters is the establishment of appropriate early warning systems; this is being addressed with the help of donor support. In addition, there is a need to build an effective, well-resourced, and capable regional disaster response system.

12. Besides the above, building knowledge about responses to immediate and potential disasters is a key regional public good. Governments, donors, and other development partners have initiated several individual and collective efforts in this area. For example, to address the risks associated with disaster responses that often bypass routine procedures and safeguards, the ADB organized a regional expert meeting on corruption prevention in tsunami relief jointly with the Organisation for Economic Co-operation and Development and Transparency International to

develop knowledge on this vital issue of wide stakeholder concern. Furthermore, experience suggests that international donors need to ensure that the response to one crisis does not adversely affect responses to other crises. To address this challenge, in 2003, key donors agreed to the Principles and Good Practice of Humanitarian Donors, which includes ensuring that funding of humanitarian action in new crises does not adversely affect the needs in ongoing crises. With the experience in dealing with the recent disasters, the region is poised to develop a more comprehensive and effective system of disaster response. Support from the donor and international community will be critical for the success of these endeavors.

## **Communicable disease control**

### *HIV/AIDS*

13. Mobility and migration play an important role in the spread of HIV/AIDS by facilitating contacts and by loosening social restrictions. The rapid spread of HIV/AIDS in the region strikingly demonstrates the risks associated with greater integration and crossborder mobility. It is estimated that, by 2010, Asia will overtake Africa in the number of HIV/AIDS cases. Apart from being a great human tragedy for the patients and their families, the continuing spread of HIV/AIDS in Asia also entails significant economic losses. It can potentially reverse the hard-earned gains in poverty reduction in the region.

14. The fight against HIV/AIDS needs to be multipronged. Some key elements include advocacy and awareness generation, improving coordination, and strengthening the knowledge base. The ADB has worked closely with national authorities and international agencies to achieve these objectives. In view of their close links, the incorporation of measures to prevent and mitigate the risk of HIV/AIDS in the transport and transportation sectors so as to reduce mobility-linked and crossborder risk factors has been a key area of donor focus, including within the ADB. As more experience is gained, the fight against HIV/AIDS has been evolving in the region. There is growing recognition of the need to strengthen the commitment of regional leaders, build capacity at the country and regional levels, and undertake targeted programs for the poor and the vulnerable. The new strategic framework of the ADB approved in April 2005 addresses these issues. The ADB is also strengthening its collaboration with the Joint United Nations Programme on HIV/AIDS in these efforts. Using the Asian Development Fund grant resources,<sup>10</sup> during 2005, the ADB approved several transport projects with HIV/AIDS components, a regional communicable diseases control project, and an HIV/AIDS prevention and capacity development project in the Pacific. In February 2005, the ADB also established an HIV/AIDS trust fund with an initial contribution from the government of Sweden. The fund will provide support for developing regional knowledge products for program and policy planning.

### *SARS and avian flu*

15. During the past few years, new communicable diseases have emerged in the region. The rapid spread of these diseases has reminded the region of the risks associated with greater integration and crossborder mobility. In 2003, SARS, which first occurred in East Asia, was quickly recognized as a global threat. SARS was barely contained when the first series of H5N1 avian influenza outbreaks were observed in the region. If the influenza virus mutates or

combines with existing human influenza viruses, it may acquire the capacity to spread more easily among humans, resulting in a human influenza pandemic. The World Health Organization estimates that 2–7 million people could die in an influenza pandemic worldwide. In November 2005, the Food and Agriculture Organization estimated the total cost of the avian influenza outbreaks at US\$10 billion. Loss of poultry due to disease and culling has already pushed many rural households into poverty. If a pandemic starts, some economic analyses suggest that it could potentially halt economic growth in East and South Asia in the short run.

16. A problem of this magnitude and wide geographical dimension requires a regional response that includes the provision of a variety of regional public goods, including knowledge, regional frameworks, and coordinated action. During the SARS epidemic, the ADB formulated and initiated an action plan to strengthen emerging disease surveillance and response in the region. Based on its experience in dealing with similar issues in the past, the ADB is responding within a significant regional dimension to the outbreak of avian flu influenza. There is a general agreement that control at the source, when avian influenza still affects only the bird population, is the priority strategy to prevent the pandemic. This implies rapid identification and containment of avian influenza outbreaks. Regionwide coordination and the sharing of information remain critical for the success of such efforts.

17. The fight against avian influenza seems to be long drawn, requiring collective and sustained effort by all stakeholders. The rapid progress seen in donor collaboration to develop a more flexible regional response to the avian influenza is encouraging. This includes a partnership between the ADB, ASEAN, the Food and Agriculture Organization, and the World Health Organization. Donors are also extending grant assistance to provide some critically needed regional public goods. For example, apart from US\$400 million for lending, the ADB has provided US\$68 million in grant assistance for two regional projects. The first project, the Communicable Disease Control Project (US\$30 million) in the GMS, is aimed at controlling the outbreak of emerging communicable diseases by improving regional coordination. The second, the Prevention and Control of Avian Influenza in Asia and the Pacific Project (US\$38 million), covers all ADB member countries and focuses on both the short-term needs for fighting avian influenza and the longer-term strengthening of the regional capacity to fight emerging diseases.

18. With the increasing permeability of international boundaries, the role of regional cooperation and regional public goods in the fight against the spread of communicable diseases will remain critical in the future. The knowledge and the regional facilities created to fight today's communicable diseases should be developed in a manner to outlive the current diseases, as they are likely to be needed in the future.

### **Governance and anticorruption**

19. The 1997 East Asian economic crisis demonstrated how financial and governance problems in one country may rapidly affect investor confidence in neighboring countries. It also underscored the need to improve governance and adopt tougher standards to prevent corruption and related destabilizing factors in the region. Transnational corruption is another key governance issue posing a serious threat to market stability and physical security. This requires strong regional mechanisms for communication and coordination. Progress on these governance

issues is still at the early stages. The ADB has supported the processes both directly and indirectly. In 1995, the ADB became the first multilateral development bank to adopt a comprehensive governance policy. The policy identified four essential elements of good governance: accountability, predictability, participation, and transparency. Three years later, the ADB adopted its anticorruption policy with the firm view that combating corruption is vital to improving governance and enhancing the impact of investments in developing member countries. This strengthens the regional and global governance architecture.

20. Although much of the work in these areas must take place at the country level, regional initiatives also play a role. A judicious mix of the provision of national and regional public goods can improve the effectiveness of national-level efforts. The donor community is becoming increasingly active in supporting such efforts. For example, the Anti-Corruption Initiative for Asia-Pacific of the ADB and the Organisation for Economic Co-operation and Development provides a regional platform to implement an action plan that will cover transparent systems for public service, antibribery actions and integrity in business operations, and public involvement and that will strengthen national-level efforts. The ADB also supports capacity building among developing member country officials in evolving anticorruption strategies, and it disseminates related publications. Following the recent review of the implementation of its governance and anticorruption policies, the ADB is developing a medium-term action plan for governance and anticorruption. This results-based plan will draw on the principle of mutual accountability and include benchmarks for the accountability of international financial institutions in governance and anticorruption work. The ADB will actively encourage developing member countries to strengthen budgetary and financial management systems, and it will contribute toward aligning the priorities for donor support to developing member country strategies for public financial management and procurement.

21. The governance-related challenges facing the region are expected to intensify as the economies of East Asia become more developed, complex, and integrated. There is a need to correspondingly intensify collective efforts to address these issues quickly before the problems become the most potent source of friction for the future growth of the region.

### **Human trafficking prevention**

22. Over the past few decades, the centuries-old problem of human trafficking has intensified. Asia has served as the major source and destination of this traffic. In 2003–04, the Asia and Pacific region accounted for about half of the total global trafficking-related prosecutions (United States 2005). The worsening phenomenon of trafficking in women and children can be attributed to push factors such as poverty and unequal development, conflicts, natural disasters, dysfunctional families, and social and gender discrimination, as well as pull factors such as globalization and the global demand for cheap labor, improved communication systems, the attractive image of a better urban life, improved transport and transportation networks, and growing global tourism. While trafficking of men and boys does occur, the majority of trafficked persons are women and girls. Although trafficking is generally associated with sex work, substantial demand for exploitable labor also arises from the wider range of the demand for work, such as bonded labor in industrial and agricultural sectors, domestic work, the entertainment sector, and begging. Over the past decade, various preventive, legal-prosecution, and rescuing-

rehabilitation measures have been undertaken by governments and nongovernmental organizations, but the results have been frustrating, partly because of corruption, the lack of commitment, and the complexity of antitrafficking interventions that involve multiple agencies.

23. The key areas for addressing this problem include preventive measures (for example, awareness raising and the empowerment of women and children) and impact monitoring, along with economic development operations, especially crossborder road corridors and other regional economic integration initiatives. Most of these areas need to be addressed at both the country and the regional levels. As the regional development bank, ADB has contributed to these efforts along with other stakeholders. The current approach of the donor community includes regional research, minimizing and mitigating human trafficking vulnerabilities through donor-funded projects, and policy dialogue. Examples of research work that is examining aspects of the human trafficking problem include the ADB technical assistance grant on Preventing Trafficking of Women and Children and Promoting Safe Migration, as well as the ADB project, Reviewing the Poverty Impact of Regional Economic Integration in the GMS. Where trafficking vulnerabilities are identified through donor-funded projects, donors are recommending inclusion of an antitrafficking component in such projects, often in conjunction with an HIV/AIDS prevention component. This is particularly important in crossborder transport corridor and tourism projects. Along with others, the ADB has also facilitated policy dialogue within or between different subregions of Asia, including the GMS countries. Having gained more experience in this area, the ADB needs gradually to move from a project-by-project, piecemeal approach to a programmatic regional approach that is linked to regional corridor and connectivity planning.

*Source:* Based on ADB 2006a.

## Notes

<sup>1</sup> “Joint Statement on East Asia Cooperation.” November 28, 1999. <http://www.aseansec.org/5301.htm>.

<sup>2</sup> “Press Statement by the Chairman of the 8th ASEAN Summit, the 6th ASEAN+3 Summit and the ASEAN-China Summit.” Phnom Penh, Cambodia, November 4, 2002. <http://www.aseansec.org/13188.htm>.

<sup>3</sup> “Kuala Lumpur Declaration on the East Asia Summit.” Kuala Lumpur, Malaysia, December 14, 2005. <http://www.aseansec.org/18098.htm>.

<sup>4</sup> Ibid.

<sup>5</sup> To date, ASEAN has signed framework agreements on comprehensive economic partnership with China, India, Japan, and Korea. The negotiations on FTAs with these countries have already been embarked on; they cover trade in goods, services, and investment. The basis for FTA negotiations between ASEAN and Australia and New Zealand is the Joint Declaration of the Leaders at the ASEAN–Australia and New Zealand Commemorative Summit, which was signed on 30 November 2004 (see <http://www.aseansec.org/16796.htm>). The Agreement on Trade in Goods was signed with China in November 2004 (<http://www.aseansec.org/16646.htm>), and its implementation commenced in July 2005, while other agreements are under negotiation, with a targeted completion year of 2007.

<sup>6</sup> Poverty and Development Indicators Database. Asian Development Bank. <http://www.adb.org/>

Statistics/pov\_dev\_indicators.asp.

<sup>7</sup> For example, see <http://www.aseansec.org/16056.htm>.

<sup>8</sup> The GMS consists of Cambodia, Lao PDR, Myanmar, Thailand, Vietnam, and Yunnan Province and the Guanxi Zhuang Autonomous Region in China.

<sup>9</sup> Funds of the governments of Canada, Denmark, Finland, and the Netherlands.

<sup>10</sup> Under the ninth replenishment of the Asian Development Fund (ADF IX), 2 percent of the total resources have been earmarked as a grant to support activities targeting HIV/AIDS and other communicable diseases.

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