

Economic Cooperation in Asia Pacific: 2014 and Beyond

**PECC 22nd General
Meeting – Beijing
10-11th September 2014**

***Financial Cooperation in
Asia Pacific: Status Quo and
Prospects***

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Agenda

1. Contemporary economy and finance factors – status quo
2. Global/regional approaches impact on financial systems – status quo
3. Prospects – regional financial cooperation
4. Enhancing the prospects for cooperation

1. Contemporary economy and finance factors – status quo

Economy factors:

- Slow down of productivity growth in the region
- Global value chains and supply chains – dealing with barriers/impediments – importance of trade in services liberalisation
- Linked to need for investment flows in the region – still below post-GFC levels/need to address investment restrictions – in finance and other sectors

Financial factors:

- GFC – seriously impacted trade finance and slow down in real economy growth
- Intensive supervision of financial institutions - more capital for banks, insurers, securities – rigorous disclosure and governance; liquidity buffers, strengthened micro prudential supervision, maximum leveraging standards
- Supervision of systemically important financial institutions
- Internationalisation of the RMB

Minimise risk in finance to levels compatible with stability and growth

2. Global/regional approaches impact on financial systems - Status quo

- GFC, Basel III, FSB, Basel Committee, G20 - international standard setting groups influencing the shape and impact of domestic financial system regulation in Asia and the Pacific
- Asian Financial Crisis led to the Chiang Mai Initiative, the multi-lateralisation of that initiative and the formation of AMRO – with macro policy reporting for some regional economies
- APFF – reviewing ways to enhance financial market connectivity/integration in the region – interim report issued - but more work needed
- Asia Region Funds Passport – arrangements to harmonise the listing of mutual funds products in certain markets in the region

3. Prospects – regional financial cooperation

Prospects to be viewed in context of what needs to be achieved:

- Dealing with the impact of demographics – pensions, health, education, infrastructure financing, regional financial architecture, economic growth, system and systemic stability, SMEs and corporate financing, technology and innovation
- Holistic approach to real economy and financial system
- Difficult for governments and even more difficult in a regional context
- APEC/ASEAN/PECC – useful forums to identify policy options
- APEC – APFF and APIP and other initiatives identify many serious financial issues; some to do with financial market integration and more efficient financial services and infrastructure investment
- Forward movement toward regional financial market integration will involve much deeper coordination – across economies and between public and private sectors

4. Enhancing the prospects for cooperation

- APFF provides a prospect for a process to achieve cooperation in financial services
- APIP and multi-year plan on Infrastructure Development and Investment – should lead to valuable progress in infrastructure in the region

BUT governments, policy makers and regulators need to commit deeper and high quality resources to change the prospect of regional cooperation into a reality AND

- exhibit a willingness to come together in a regional context and sensibly coordinate views that reflect regional interests – this will require enhanced leadership within the region toward financial market integration and prudential and governance standards for financial institutions
- implement sound policy frameworks to promote infrastructure investment
- create the environment which allows communications technology to deliver creative and safe financial services to poorer communities