

Strengthening Payment Systems in Asia

Session III : Wrap-up Session

Capital Flows in Asia and Recent Developments in Regional Financial Cooperation

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Abstract

Since the Asian currency crisis, the Asian economy has achieved continued growth. Financial flows in the region have also increased and the mutual relationships between the Asian economies have been deepened. While not only enjoying this period of prosperity, Asian countries have also promoted regional financial cooperation such as the Chang Mai Initiative (CMI) and the Asian Bond Market Initiative (ABMI) under the framework of ASEAN +3 (China, Japan and Korea) , applying the lessons learnt from the Asian Currency Crisis.

CMI is a short-term liquidity support mechanism in which a country provides foreign currency to another country that faces a balance of payment difficulties in foreign currency obligations through a swap transaction. Currently, there are 16 contracts arranged among eight countries (China, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore and Thailand) and the total size of the mechanism is 58 billion USD.

Under the recent CMI process, ASEAN+3 countries are working to unify existent bilateral contracts (CMI Multilateralisation). CMI Multilateralisation will enable CMI to be activated more smoothly and efficiently. In addition, all ASEAN+3 members will be covered under the new mechanism. At the ASEAN+3 Finance Ministers' Meeting in 2008, the Ministers agreed that the total amount of the multilateralised CMI would be at least 80 billion USD and the regional surveillance system for member countries' economic and financial situations would be strengthened.

As the turmoil in international financial markets, that originated with the sub-prime loan problem in the United States, has impacted on the real economy, tightness in US dollar financing can be seen in some Asian countries. In this situation, strengthening of the CMI becomes all the more important. Last December, Japan and Korea agreed to expand the size of their currency swap arrangements up to 30 billion USD, and at the Japan-China-ROK Trilateral Summit, the leaders committed to expedite the process of CMI Multilateralisation.

ABMI, which was started in response to the Asian Currency Crisis, is a framework of financial cooperation for developing local currency-denominated bond markets in order to allow private savings to be utilized for necessary investment for development in the region.

At the ASEAN+3 Finance Ministers' Meeting in 2008, the Ministers endorsed the New ABMI Roadmap to promote further development of Asian bond markets. The main pillars of the Roadmap are, (1) a focus on the four key areas (promoting issuance of local currency-denominated bonds, facilitating the demand of local currency-denominated bonds, improving regulatory framework and improving related infrastructure for the bond markets) and (2) to secure the appropriate structures for member countries to make further voluntary efforts.