

NEAT Working Group on East Asian Financial Cooperation

Report

**Beijing, China
29 May 2009**

Introduction

NEAT Working Group Meeting on East Asian Financial Cooperation was held in Beijing, China on 29 May 2009. NEAT members and experts from 12 of the ASEAN + 3 countries and the ASEAN Secretariat took part in this meeting (Thailand was absent). There were an opening session, four panel discussions, and a wrap-up session.

Mr. Zhang Jianhua, Director-General of the Research Bureau of the People's Bank of China, delivered a keynote speech at the Opening Session. He briefed the participants on the measures China has adopted in coping with the global financial crisis, difficulties and progress of the implementation of these measures, and the prospect of China's economic growth.

The four panels were:

1. Evaluating Global and East Asian Economic and Financial Situation,
2. CMIM and the Independent Surveillance Unit (1): Operation Details and Implementation Plan,
3. CMIM and the Independent Surveillance Unit (2): Impact on East Asian Monetary and Financial Cooperation,
4. Sustaining Regional Economic Growth and Promoting the Reform of International Financial System.

The meeting examined the aggravating impacts of the economic crisis upon East Asia, reviewed the recent achievements of the East Asia financial cooperation and put forward action-oriented policy recommendations.

I. Difficulties: Impacts of Global Financial Crisis

The global financial crisis has exerted considerable impacts on financial stability, export growth and economic growth in East Asia.

Financial institutions in some East Asian economies have suffered losses; stock markets have seen sharp fluctuations; foreign exchange reserves have decreased; and the bond markets have shrunk. Moreover, export trade in East Asia has witnessed steep decline due to the shrinking of developed markets and resurging of trade protectionism. For instance, China's export started to grow negatively since November 2008. In the second quarter of 2009, the growth rates of China's export

were respectively -25.7%,-17.1% and -22.6%. East Asian economic growth has slowed down and even become negative in some countries.

II. Fresh Impetus: Breakthroughs in East Asian Financial Cooperation

Participants commended the latest development in East Asian financial cooperation. “Action Plan to Restore Economic and Financial Stability of the Asian Region” adopted at the ASEAN+3 Financial Ministers’ Meeting in February 2009 increased the total size of the CMIM from US\$80 billion to US\$120 billion. The ASEAN+3 Finance Ministers’ Meeting on 3 May 2009 reached agreement on all the main components of the CMIM including individual country’s contribution, borrowing accessibility, and the surveillance mechanism. It also agreed to implement the CMIM before the end of 2009 and to establish an independent regional surveillance unit as soon as possible.

On the ABMI, the Finance Ministers’ Meeting in May agreed to enhance the ABMI Roadmap and endorsed the establishment of the Credit Guarantee and Investment Mechanism (CGIM) as a trust fund of the ADB with an initial capital of US\$500 million. The Meeting also endorsed research activities to promote trade settlement denominated in local currencies in East Asia and regulation and supervision for sound liquidity risk management for banks.

These significant developments in regional financial cooperation are conducive to regional financial stability, policy coordination and the improvement of the international financial system. And more importantly, they have given a fresh impetus to further regional financial cooperation.

III. Policy Recommendations

Based on the common understanding upon the necessity to strengthen financial cooperation in East Asia, participants made action-oriented policy recommendations in a few major areas.

1. Strengthen regional surveillance

First, it was proposed setting up an independent regional surveillance unit as soon as possible. The Finance Ministers’ Meeting in May 2009 agreed to establish an advisory panel of experts to work closely with the ADB and the ASEAN Secretariat to enhance

the current surveillance mechanism to lay the surveillance groundwork for the CMIM. However, such a transitional period should not be long. Agreement should be reached and arrangements be made as soon as possible on the organizational structure and personnel makeup. Some participants suggested that a timetable be made with the deadline in 2010.

Second, it was proposed that the spectrum of the modality of monitoring and surveillance be widened. The surveillance unit should not only observe economic indicators, but also assess macroeconomic, financial, and structural policies of member countries, pool information, issue early warnings, monitor capital flows, etc. It could also become an efficient and flexible decision-making mechanism for the CMIM. When the CMIM started to play these functions, the creation of an Asian Monetary Fund would proceed in substance.

Third, it was proposed gradually increasing the IMF de-link portion. For this purpose, the independent surveillance unit has to be in good operation, an assessment model monitoring the liquidity set up, and a reliable loan security guarantee mechanism established.

Fourth, regular expansion of the CMIM was proposed for maintaining the financial stability and meeting the growing needs of economic development.

2. Make use of the CMIM to promote regional financial cooperation

It was proposed that the CMIM could play its due role in promoting all-around financial cooperation in East Asia after the independent surveillance unit has been set up.

First, an integrated policy dialogue mechanism should be introduced. ASEAN+3 Finance Ministers' Meeting could be expanded into ASEAN+3 Finance Ministers and Central Bank Governors' Meeting; and the independent surveillance unit of the CMIM could organize relevant policy coordination activities.

Second, the independent surveillance unit of the CMIM could promote all-round cooperation among the financial institutions in this region. An East Asian Financial Forum or an "Asian Financial Stability Dialogue" could be set up as an all-around financial cooperative mechanism, participated by central banks and finance ministries, and financial regulatory bodies.

Third, the CMIM could be used to promote ABMI. At present, self-managed reserve that is contributed to CMIM might be required to purchase sovereign or quasi-sovereign bonds issued by the governments and quasi-government agencies in this region, which could help stimulate the demand for local bonds and boost the development of local bond markets.

3. Promote regional economic growth and improve the international financial system

Participants proposed that East Asian financial cooperation should be strengthened to promote regional economic growth and improve the international financial system.

It was agreed that ABMI should be enhanced. At this stage, efforts should be made to boost demand for local bonds and to increase the effectiveness of regional bond markets, including credit rating agencies.

It was proposed that a fund be set up to facilitate SME financing because the SMEs face the most severe financial difficulties in global financial crisis. The fund could be used to assist SMEs by granting loans, organizing trainings on SME financing, and providing technical support to the financial institutions doing SME credit businesses. It was also proposed that a regional clearing and settlement system be established to encourage the use of local currencies in regional trade and investment, and financial cooperation be strengthened to support investment in regional infrastructure.

Participants agreed that the international financial system needs restructuring. The multilateral and bilateral financial cooperation should contribute to the overall reform of the international financial system, especially in enabling a bigger role of the emerging economies and strengthening surveillance and regulation of the financial markets.

Conclusion

Facing severe economic difficulties in the global financial crisis, East Asian nations have realized that our economies are heavily interdependent and only further cooperation and coordination can produce common good and prosperity. The ASEAN+3 Finance Ministers' Meeting made significant progress in furthering regional financial cooperation. This momentum should be maintained and

implementation and follow-up measures should be studied and taken seriously. With such efforts, the participants believed that East Asia would recover sooner than other regions and make great contributions to the restructuring of the international financial system.