

Strategic Directions of ASEAN+3 Finance Process

I. Background

The year 2019 marks the 20th anniversary of ASEAN+3 Financial Cooperation. Along with the tides of regional economic integration, the ASEAN+3 Finance Process has been making great progress in enhancing regional economic and financial stability during the past two decades. Still, with the evolving global and regional economic and financial landscape, our region is now at a cross-road of emerging challenges as well as growing opportunities. Standing at the juncture of the 20th anniversary and looking into the future decade, ASEAN+3 members reaffirm our commitment to further enhancing the relevance and significance of the ASEAN+3 Finance Process, and exploring future directions and priorities towards a more resilient, inclusive and integrated ASEAN+3 region.

II. Strategic Directions

Triggered by the Asian Financial Crisis, the ASEAN+3 Finance Process was established to prevent or mitigate future crises, with most initiatives focusing on enhancing regional economic and financial stability. The Chiang Mai Initiative Multilateralisation (CMIM) with the support of the ASEAN+3 Macroeconomic Research Office (AMRO) was established as a regional financial safety net, playing an active role in crisis prevention and resolution in the short term. The Asian Bond Markets Initiative (ABMI) has been promoting the development of local currency (LCY) bond markets to reduce currency and maturity mismatches, contributing to the mid-to-long term economic and financial resilience of the region. With joint efforts of ASEAN+3 members, our region has effectively weathered the Global Financial Crisis in 2008 and the “taper tantrum” in 2013 with limited adverse impacts, in contrast to the rest of the world. Economic and financial stability of the region contributed to its sustained and robust growth characterized by progressive economic integration, which, in turn, reinforced regional resilience. As such, maintaining economic and financial stability will continue to be the core area of ASEAN+3 Financial Cooperation in the coming years.

The global and regional economic and financial landscape has kept evolving in the past 20 years. The growth of developed economies has been on a slowing track especially since the shock of the Global Financial Crisis, while the ASEAN+3 region has risen as the most dynamic in the world. Still, while facing risks of financial volatilities induced by the normalization of monetary policies in advanced economies, we are also encountering new challenges arising from trade protectionism, huge financing gap for infrastructure development, technological advancement, climate change, and demographic shifts, among others. These challenges, separately and collectively, impose threats not only to regional stability, but also to the growth and integration of our region. The crisis-driven nature of our process with a focus merely on maintaining financial stability may have less momentum during peace time and limit our efforts in dealing with new emerging development challenges to our region.

Against this backdrop, ASEAN+3 members are taking a proactive and forward-looking approach, building upon our previous efforts, to further deepen and broaden ASEAN+3 Financial Cooperation to better cope with these challenges. While continuing working on maintaining financial stability, we will explore initiatives of common interest towards strategic directions of fostering economic growth and promoting integration in our region.

III. Future Work

First is to deepen current initiatives on enhancing regional economic and financial stability and resilience from a longer-term perspective:

- Enhancing the effectiveness and readiness of the CMIM to make it as a front runner of Regional Financing Arrangements (RFAs) and an integral part of the global financial safety net. While continuing current works of refining the Operational Guidelines and Conditionality Framework and conducting new rounds of test runs, we will move forward with research and discussions on the future direction of the CMIM, including, but not limited to, voluntary LCY contribution, potential increase of the IMF de-linked portion, and pursuing closer coordination with the CMIM-linked institutions such as the International Monetary Fund (IMF). We will also continue to engage with and learn from other RFAs in the provision of financing support to their members. Looking ahead also implies going back to fundamentals and revisiting basic principles to ensure that the CMIM remains relevant and responsive to the needs of its members.
- Continuing the support to AMRO to work towards a leading economic surveillance organization, trusted policy advisor of members, and thought leader of the region. We will further strengthen AMRO's surveillance capacity to look at long-term structural issues and risks that may affect the integration and prosperity of our region, in addition to the current focus on short- to medium-term issues. We will also step up efforts to enhance AMRO's governance and organizational capacity as an independent, credible and professional international organization. We expect AMRO to provide more institutional support to the ASEAN+3 Finance Process, come up with new perspectives and thoughts on promoting regional economic stability, development and integration, and facilitate sharing of our good experiences and practices with other regions.
- Revitalizing ABMI with the new Mid-term Roadmap to foster development of regional bond markets with diversified LCY funding options. We will continue to promote cross-border issuance and settlement of LCY bonds through current initiatives including: the Credit Guarantee and Investment Facility (CGIF), ASEAN+3 Bond Market Forum (ABMF), and Central Securities Depository (CSD)- Real Time Gross Settlement (RTGS) linkages, among others. We may deepen cooperation on infrastructure financing through, but not limited to, fostering project bond issuance and green bond development.

Second is to explore new initiatives of common interest and complementarity to

foster regional economic growth and promote integration. Potential areas may include:

- Promoting LCY usage for trade and investment settlement, as well as payment connectivity, to help lower the foreign exchange (FX) risks and the costs of doing business to further deepen economic and financial integration for the common prosperity of our region.
- Developing comprehensive initiative on infrastructure financing, to better channel financial resources to foster connectivity and integration of our region.
- Designing more supporting facilities to help members better deal with macro-critical structural issues that may have major implications for financial stability and economic growth, and weather financial crises with changing nature and growing spillover risks.
- Exploring cooperation in the fields of mitigation and adaptation of climate change, i.e. Southeast Asia Disaster Risk Insurance Facility (SEADRIF), to reduce regional vulnerability to extreme weather conditions and natural disasters.
- Enhancing policy coordination to harness benefits of the technological advancement while minimizing the risks to the job markets and financial systems.

We will take concrete measures to further improve both procedures and institutional arrangements to enhance the effectiveness and efficiency of the ASEAN+3 Finance Process. We will work with regional and multilateral institutions, including the Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), ASEAN Infrastructure Fund (AIF), ASEAN Secretariat (ASEC), CGIF, International Monetary Fund (IMF) and World Bank Group (WBG) among others to accelerate the implementation of strategic directions. In particular, we will encourage AMRO to leverage on its Partnership Strategy to actively forge synergies among regional financial organizations and institutions. These arrangements, in collaboration with other regional economic cooperation mechanisms including trade arrangements such as the Regional Comprehensive Economic Partnership (RCEP), may lay a good foundation for a regional economic governance structure, to foster regional economic stability, development and integration towards a more resilient, inclusive and integrated ASEAN+3 region.