

Strengthening Growth while Maintaining Stability in Asia

20 Years after the Asian Financial Crisis and Challenges for Regional Cooperation

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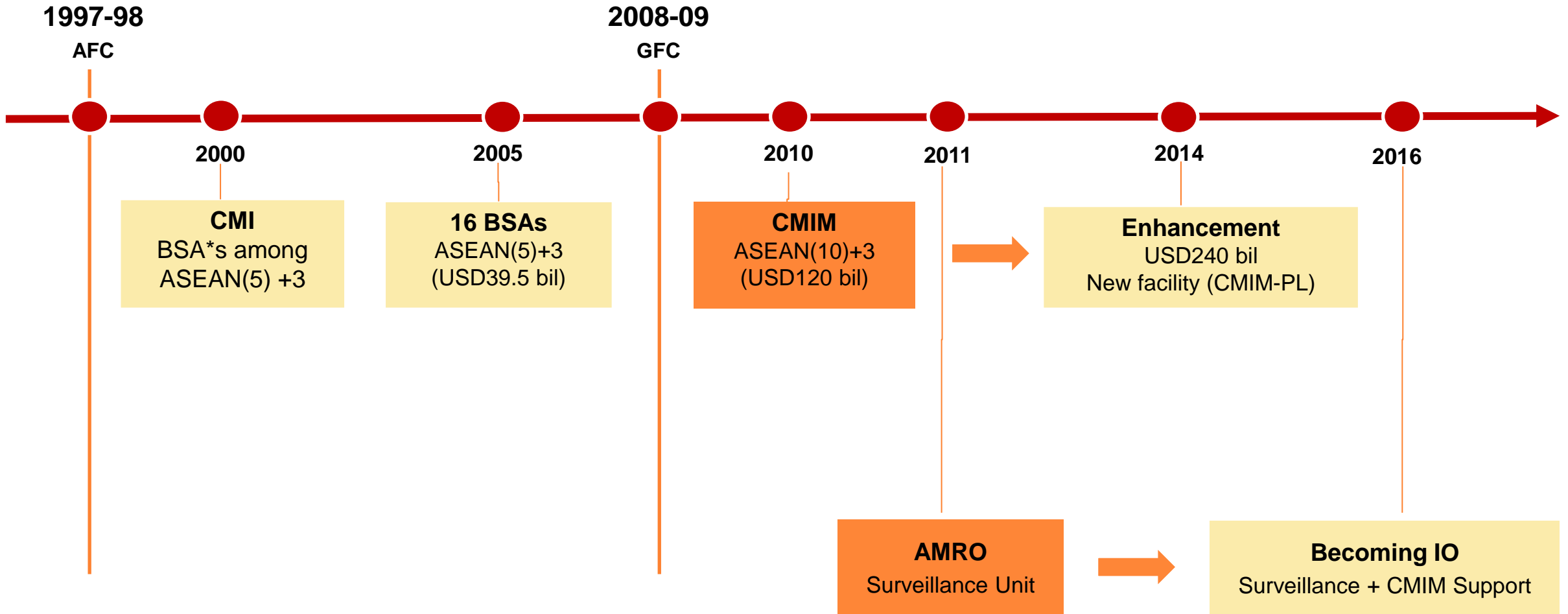
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Director, AMRO**

8 May 2017

Outline

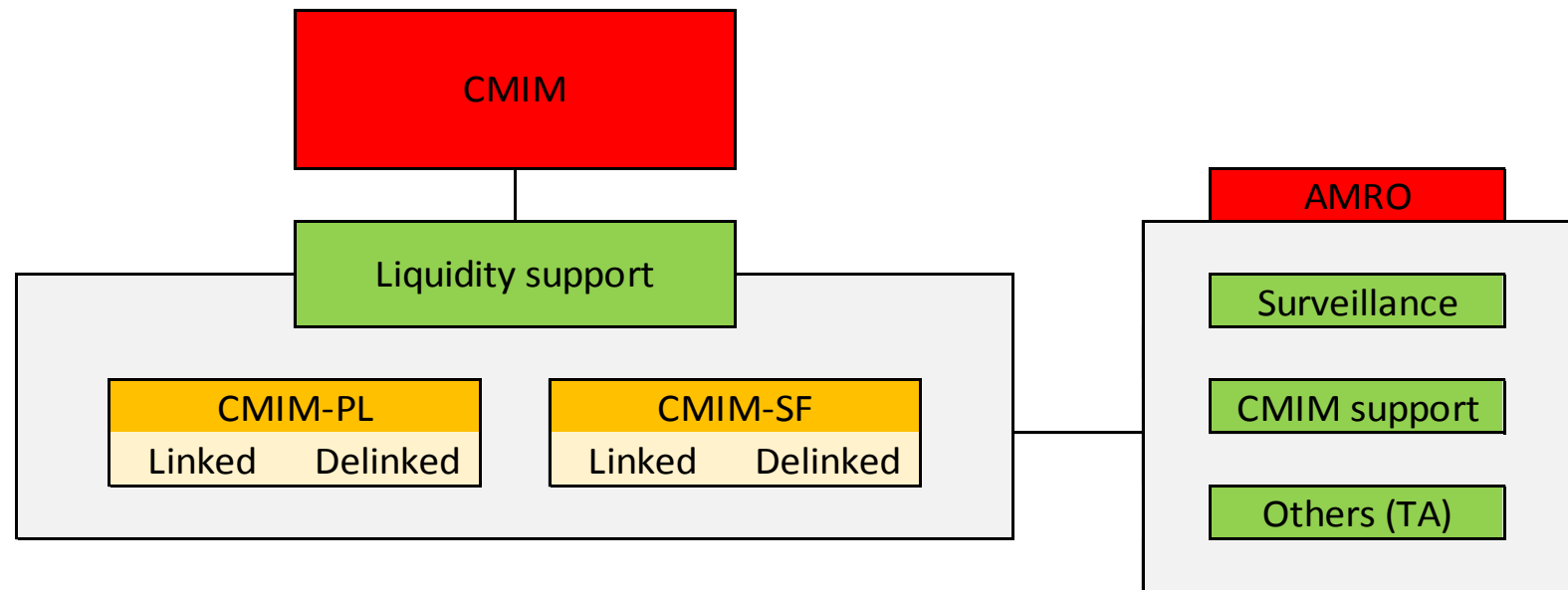


I-1. CMIM – RFA for East Asia in the Past 20 Years



I-2. AMRO – surveillance unit of CMIM

AMRO is the international organization that supports CMIM (Chiang Mai Initiative Multilateralisation) - the regional financial safety net in the ASEAN+3 region.



- Established in May 2011 as a non-profit organization, based on Singapore law
- Advanced into an international organization in February 2016

Outline

I

Introduction: CMIM and AMRO

II

Strengthening Economic Growth: 20 Years after AFC

III

Safeguarding Regional Financial Stability: Enhancing RFA (CMIM)

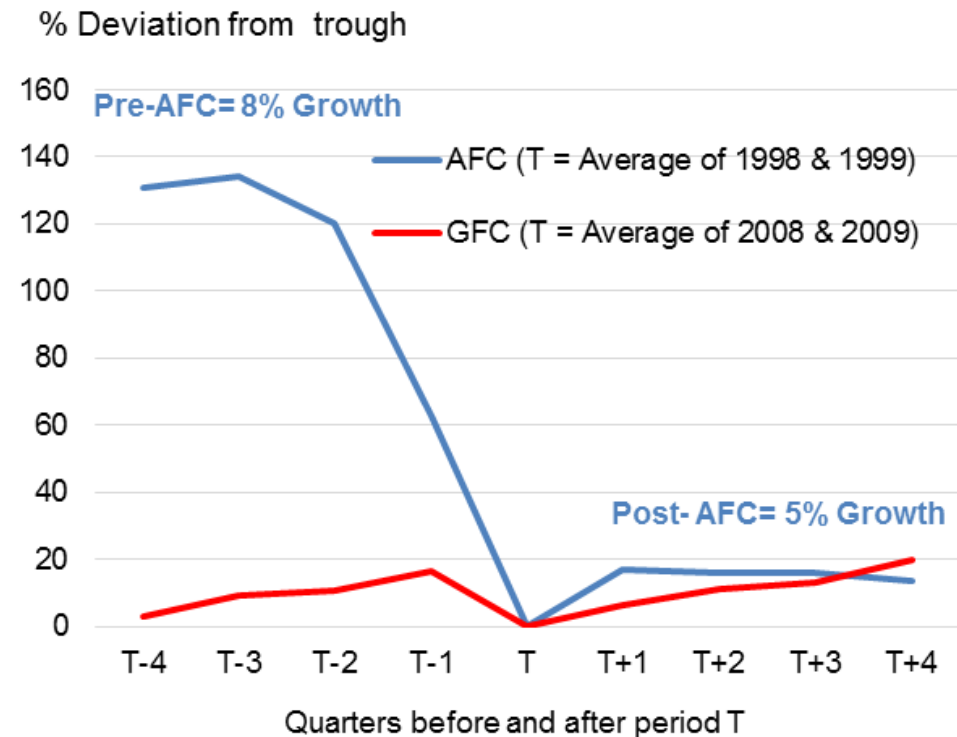
IV

Way Forward: Challenges to ASEAN+3 Policy Makers

II-1. Growth Recovery from the Crises

- Period of economic consolidation after a sharp negative shock
- Painful policy adjustments in exchange rate regimes, corporate and financial sector reforms, fiscal consolidation, and reforms in prudential regulation
- Policy adjustments enabled the affected economies to rebuild the foundations for economic growth, with exports leading the recovery

Real GDP: ASEAN-4 and Korea



II-2. Rebalancing and Leveraging Regional Integration

- Openness to trade, FDI and capital flows post-AFC enabled the region (esp. CLMV economies) to reap the benefits from growing regional integration and the emergence of China
- Increased intra-regional financial flows have eased the ASEAN+3 region's rebalancing from export-led to domestic-led demand.

Plus-3 and ASEAN shares of FDI inflows to CLMV

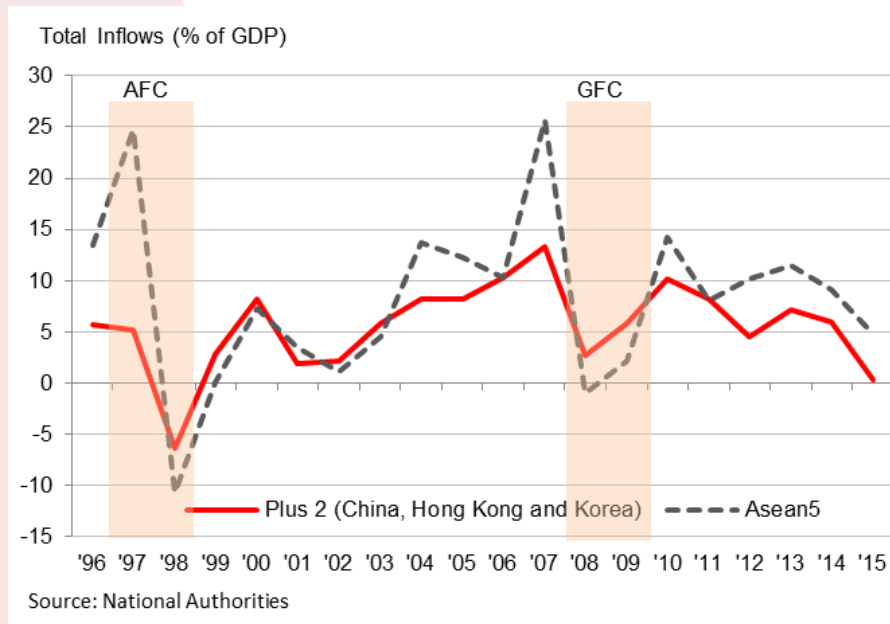
Host	Source	2013	2014	2015
Cambodia	China	22.5	32.1	31.6
	Japan	3.0	4.9	3.1
	Korea	14.0	6.2	4.2
	ASEAN-4 & SG	19.1	11.2	14.9
Lao PDR	China	35.1	67.3	61.6
	Japan	0.4	0.2	7.0
	Korea	2.5	1.4	4.2
	ASEAN-4 & SG	4.7	11.8	7.6
Myanmar	China	30.2	7.5	1.9
	Japan	1.4	4.0	3.4
	Korea	0.0	1.2	1.3
	ASEAN-4 & SG	44.6	69.8	74.5
Vietnam	China	10.7	2.3	3.2
	Japan	26.6	10.5	8.1
	Korea	19.9	35.3	29.6
	ASEAN-4 & SG	23.0	16.4	17.6

II-3. Capital Inflows Post-GFC

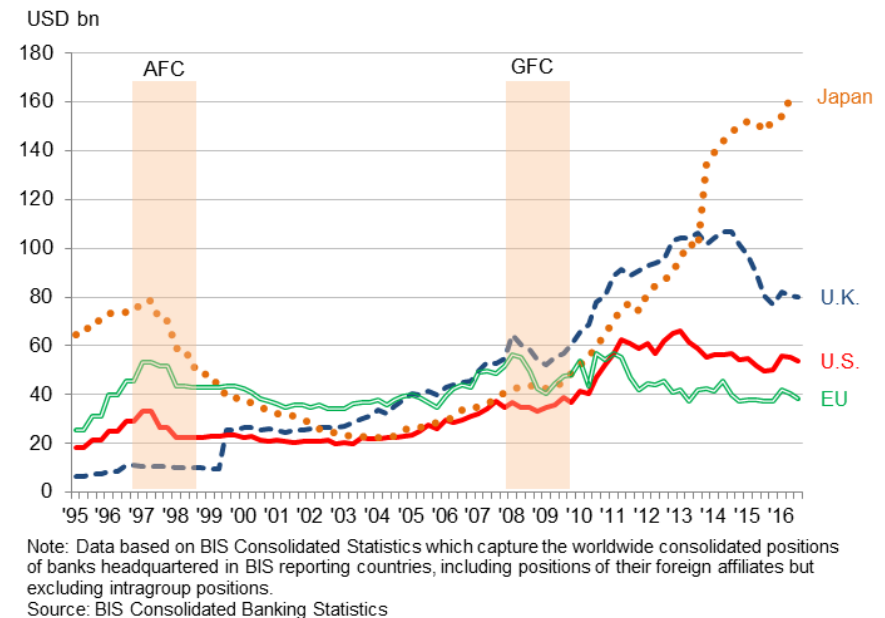
Eased rebalancing towards domestic demand, but posed risks to financial stability

- Financial vulnerabilities: credit growth, asset price inflation, leverage
- Amplifies pro-cyclicality of financial cycle and volatility

Gross Inflow ASEAN-5, China and Korea

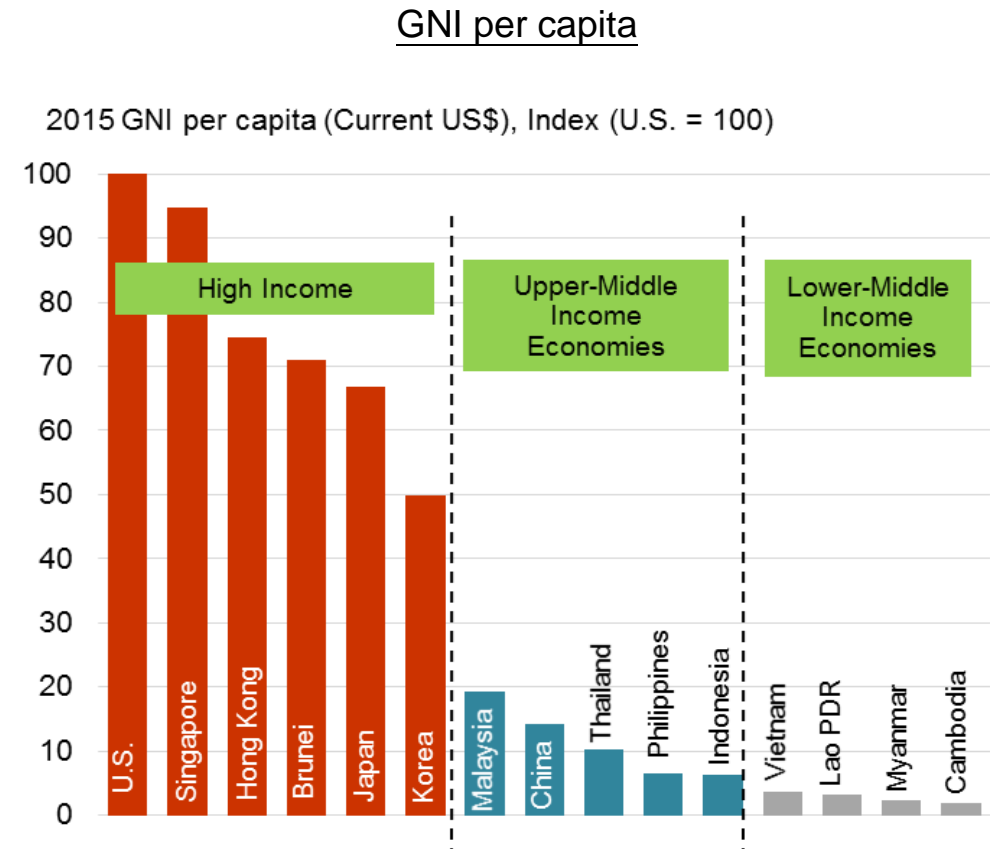


Cross-border lending of Japan vs EU and US banks into ASEAN (ex-



II-4. Looking Ahead: Challenges

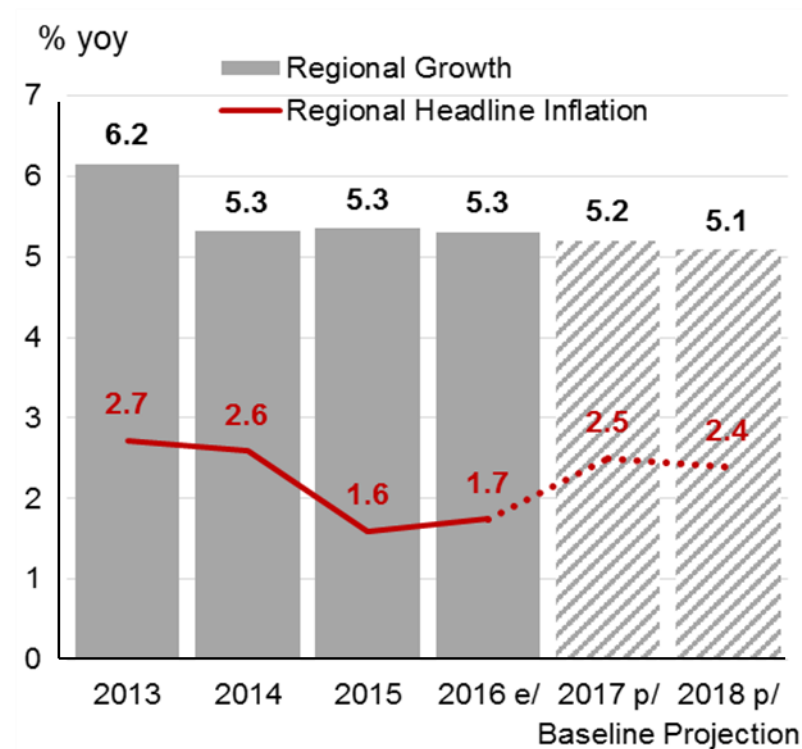
- Short term macroeconomic & risks management
- Strengthening regional financial safety net
- Accelerating structural reforms (e.g. raising TFP to avoid growth from reaching stalling speeds)



II-5. Regional Economic Outlook in the Near Term

Amid the external uncertainties, regional growth is anticipated to moderate slightly, but sustained around 5 percent in 2017-18

AMRO's Baseline Growth and Inflation Projections



	'16	'17 p/	'18 p/
China	6.7	6.5	6.3
Japan (FY)	1.4	1.3	1.1
Korea	2.8	2.5	2.6
ASEAN-4 & VN	5.0	5.1	5.2
BCLM	5.6	6.5	6.8
HK & SG	2.0	2.1	2.3
ASEAN+3	5.3	5.2	5.1

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III-1. Three Pillars of Regional Financial Cooperation

Economic Review and Policy Dialogue (ERPD)

- Macroeconomic policy communication and coordination among ASEAN+3 members

Chiang Mai Initiative Multilateralisation (CMIM)

- Regional financial arrangements for ASEAN+3 members
- “Second-line” of defense against financial crisis in the region

Asian Bond Market Initiative (ABMI)

- Mobilizing and utilizing regional savings and developing local currency bond markets

III-2. CMIM – RFA for East Asia in the Past 20 Years

What is CMIM (Chiangmai Initiative Multilateralisation)? → A Multilateral Liquidity Support Arrangement in the ASEAN+3 region

Main Objectives

1. **Self-help mechanism to address BOP and/or short-term liquidity difficulties** (CMIM Prevention and Resolution Facilities)
2. **Complement the existing international arrangement** (IMF Linked portion)

Financial Resources: Swap Lines/Transaction (a self-managed reserve pooling)

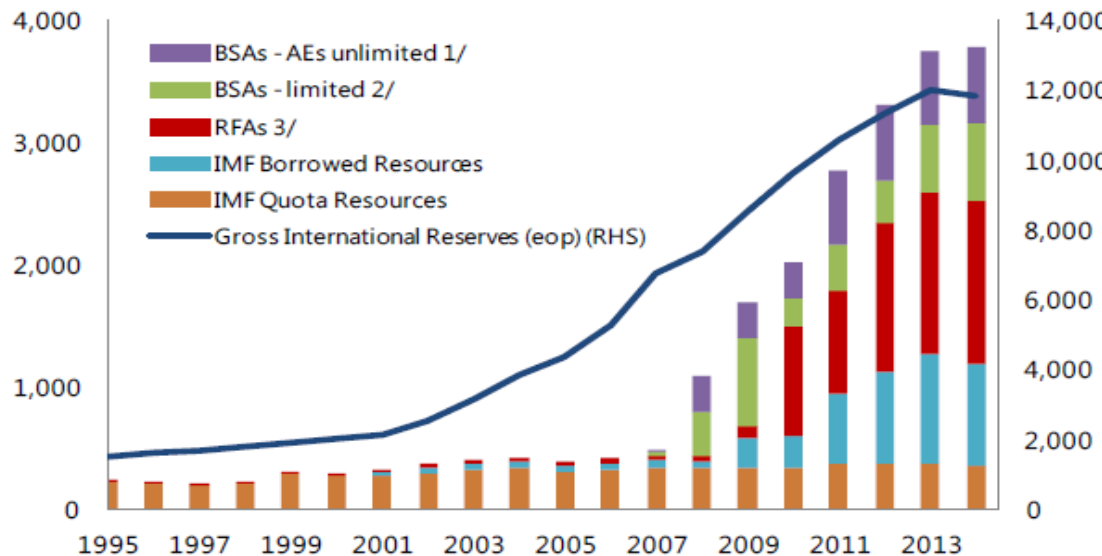
Members	Contribution (USD bn)	Share (%)
China	76.8	32.00
Japan	76.8	32.00
Korea	38.4	16.00
ASEAN	48.0	20.00
Total	240.0	100.00

Source: AMRO

III-3. Do We Still Need an Enhanced CMIM?

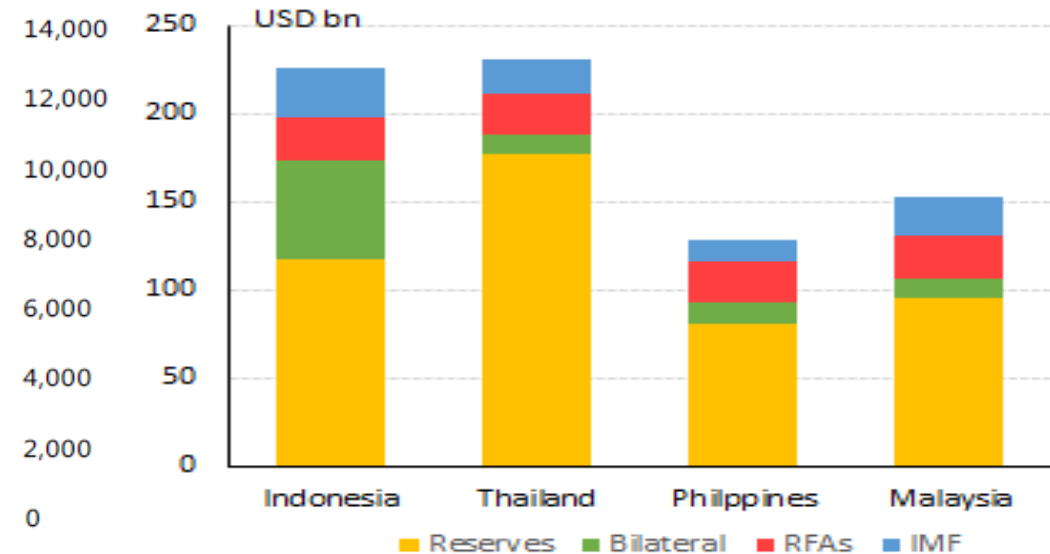
Global FSNs have expanded, in particular, in the aftermath of the Global Financial Crisis (GFS).

Evolution of the GFSN (in USD bn)



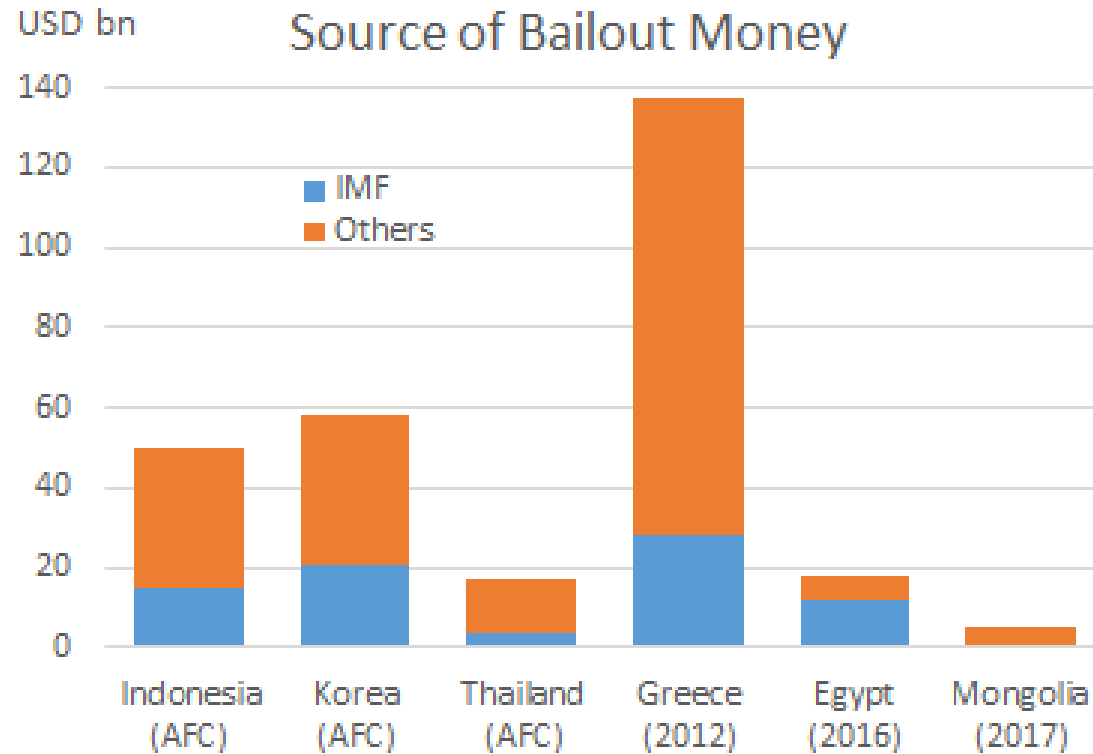
Note: 1/ Unlimited swap arrangements are estimated based on known past usage.
 2/ Limited-value swap lines include all arrangements with a value limit, exclude all CMIM and NAFA
 3/ Based on explicit lending capacity/limit where available, committed resources, or lending capacity
 Source: IMF

Safety Nets for ASEAN-4



Note: RFAs include CMIM and ASEAN Swap Arrangement.
 Data used are available as of February 2017.
 Source: National central banks, IMF, AMRO staff calculations

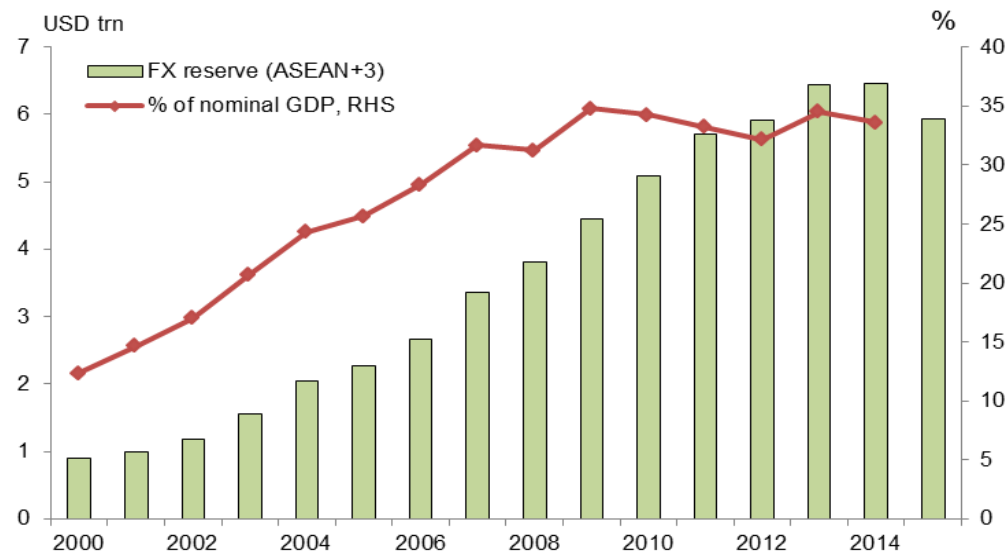
III-4. IMF facility alone is not sufficient for bailouts



Note: 1/ "Others" in Egypt Bailout includes bilateral contributions by China, the United Arab Emirates, and G7 countries.
Source: IMF, European Financial Stability Fund (EFSF), AMRO staff calculations

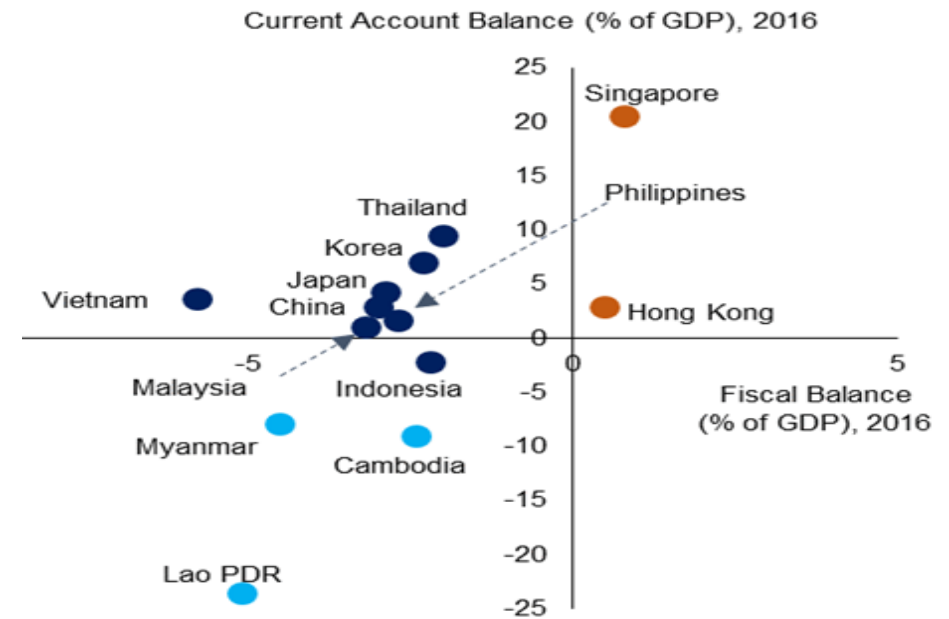
III-5. Reserves is costly and not as usable as expected

Foreign Exchange Reserves in ASEAN+3



Note: Myanmar is excluded due to data availability. The GDP share for 2015 will be updated upon the Laos GDP figure in 2015 available.
 Source: National central banks, CEIC, AMRO staff calculations

Current Account and Fiscal Balance in ASEAN+3



III-6. The Importance of Regional Financial Safety Nets

Foreign exchange reserves

National level



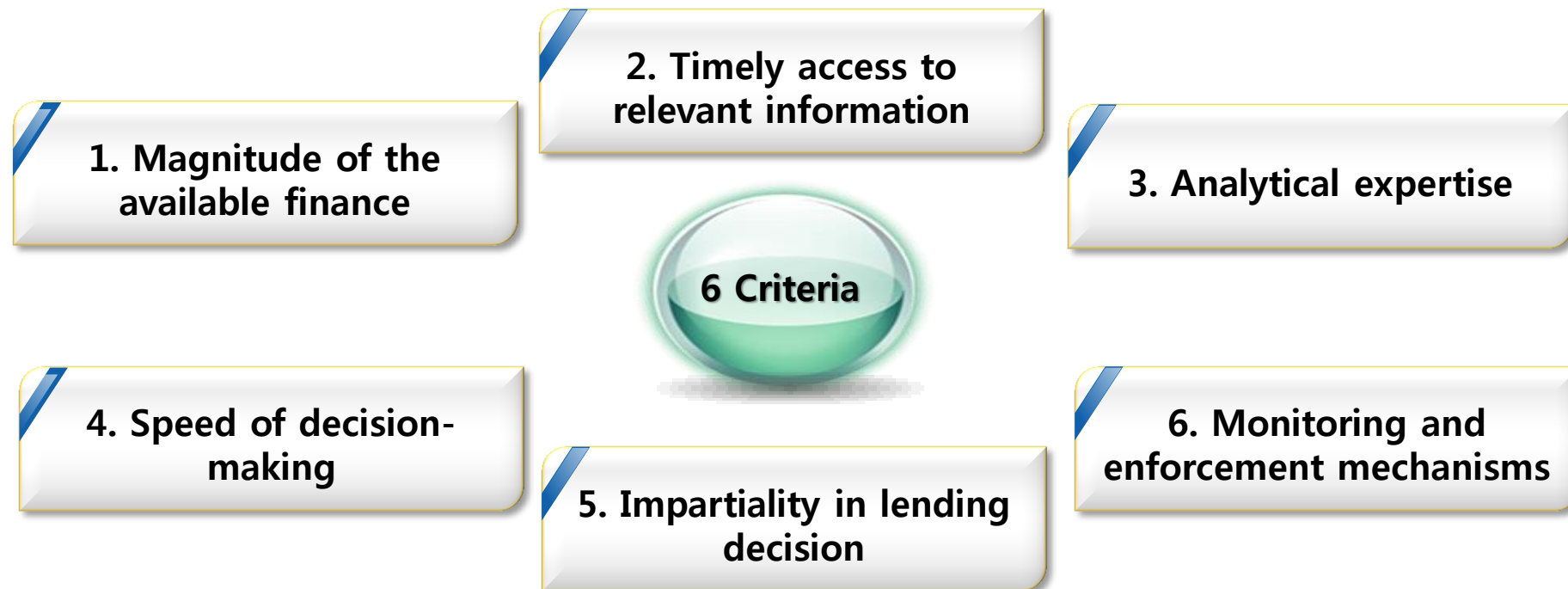
IMF programs

Global level



III-7. Evaluating CMIM and AMRO

6 criteria in “regional financing arrangements and the stability of the international monetary system” (Julie Mckay, Ulrich Voltz &, Regine Wolfinger, 2010)



III-7. Evaluating CMIM and AMRO (continued)

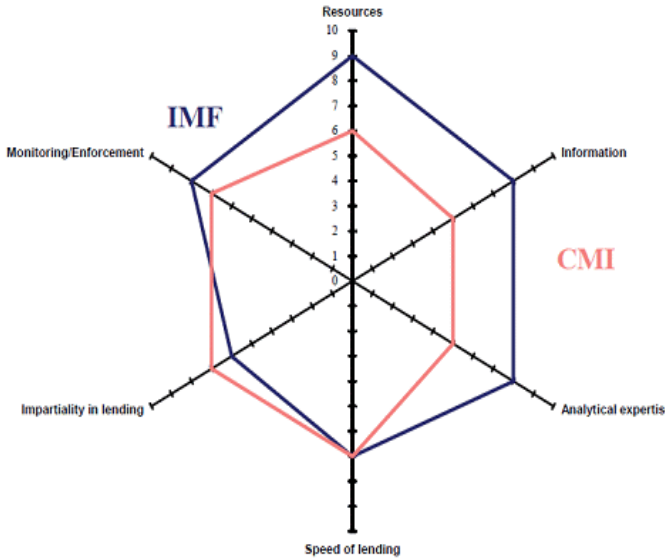
1997

IMF vs. "none"

N.A.

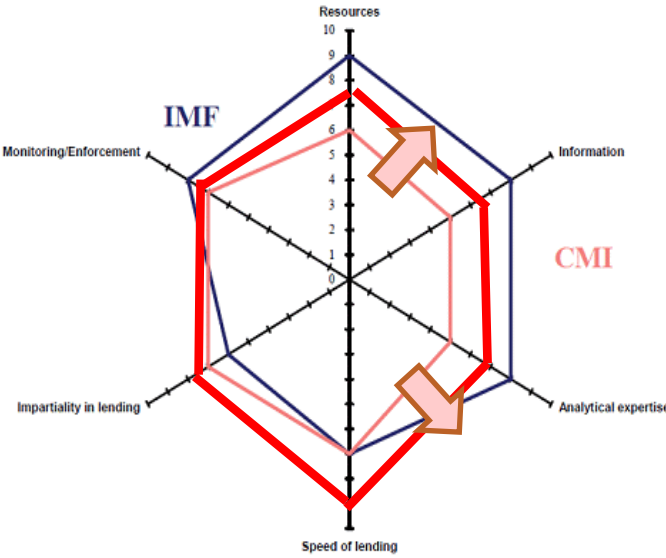
2008

IMF vs. CMI



2014

IMF vs. CMIM



III-8. Limitations and Problems

CMIM is large compared to other RFAs, but all RFAs has intrinsic limitations/problems of their own.

Never sufficient

Economy keeps growing

FAST



and **S L O W**

Peer assessment

Leniency error



Separation

CMIM & AMRO



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IV-1. Strengthening RFA

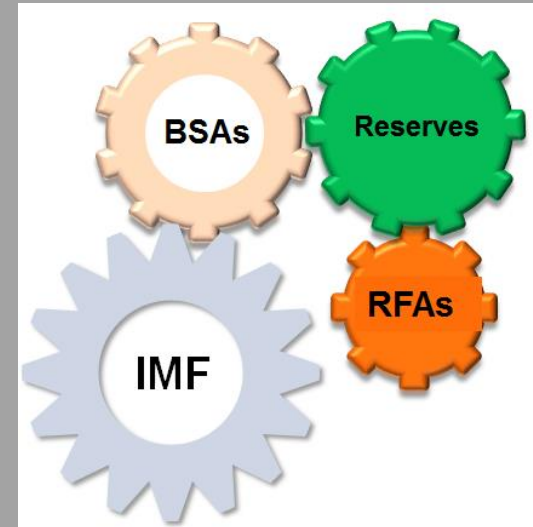
Surveillance Capacity



Operational Readiness



Coordination among GFSNs



IV-2. Policy Coordination for Economic Resilience

Rebalancing Economic Growth



Economic & Financial Integration



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