



AEIM 2014 Launch and Seminar on Regional Cooperation and Integration

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Outline

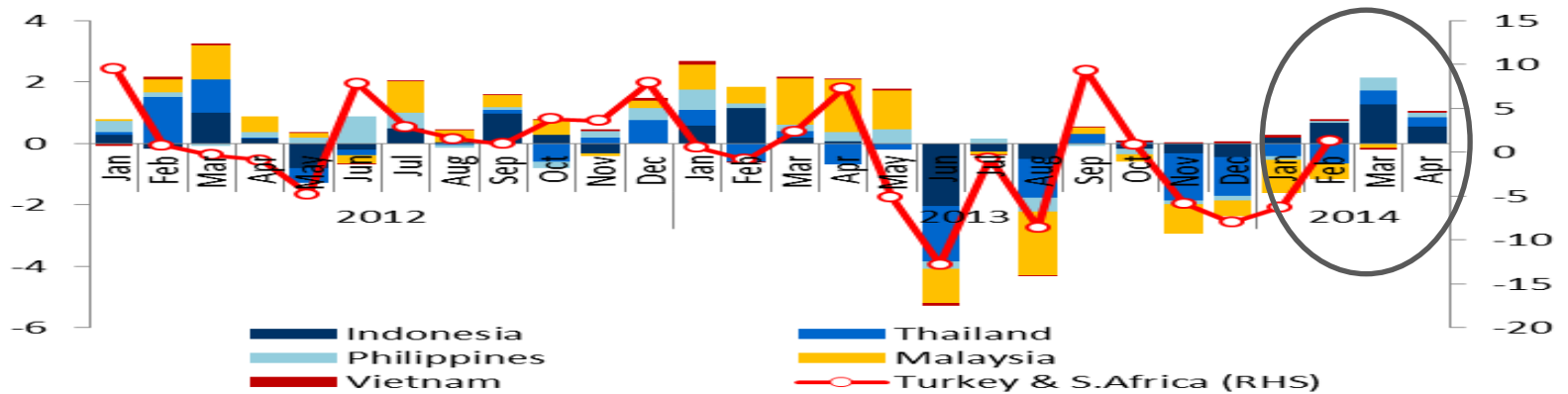
1. Regional economic prospects and risks in the near term.
2. Regional cooperation – Role of financial safety net.
3. Some observations about the analyses in the Report.

Emerging Asia Situation and Risks

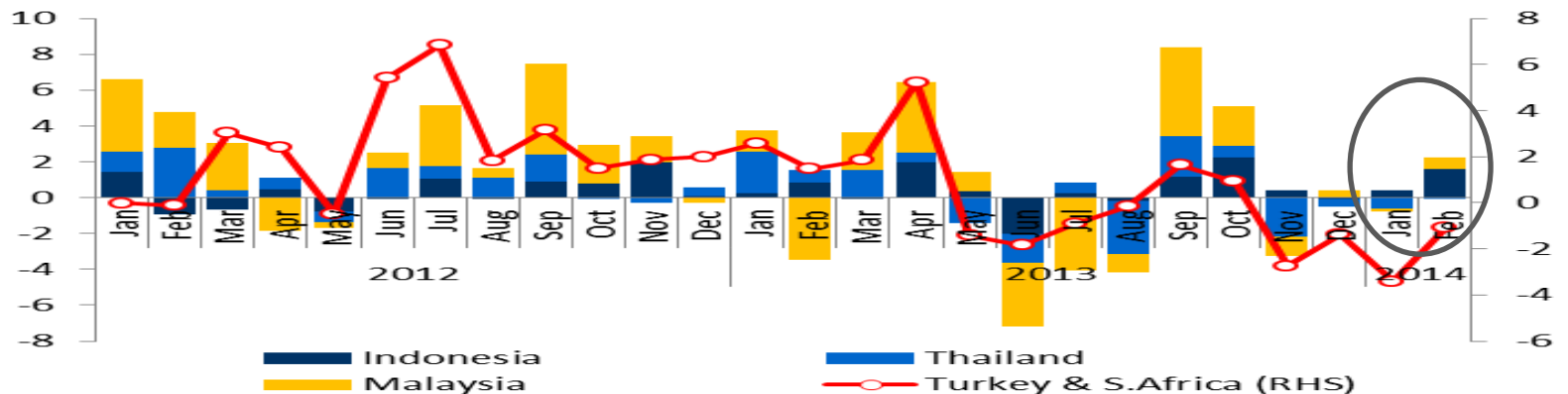
- Continued growth with increasing reliance on external demand
- Sizeable risks from
 - **Moderation of growth** in US, Europe and China.
 - **Tighter financial conditions** and effects on household debt burden and asset prices.
 - **Capital flows fluctuations** and reversals during normalization of US monetary policy.

Capital flows developments

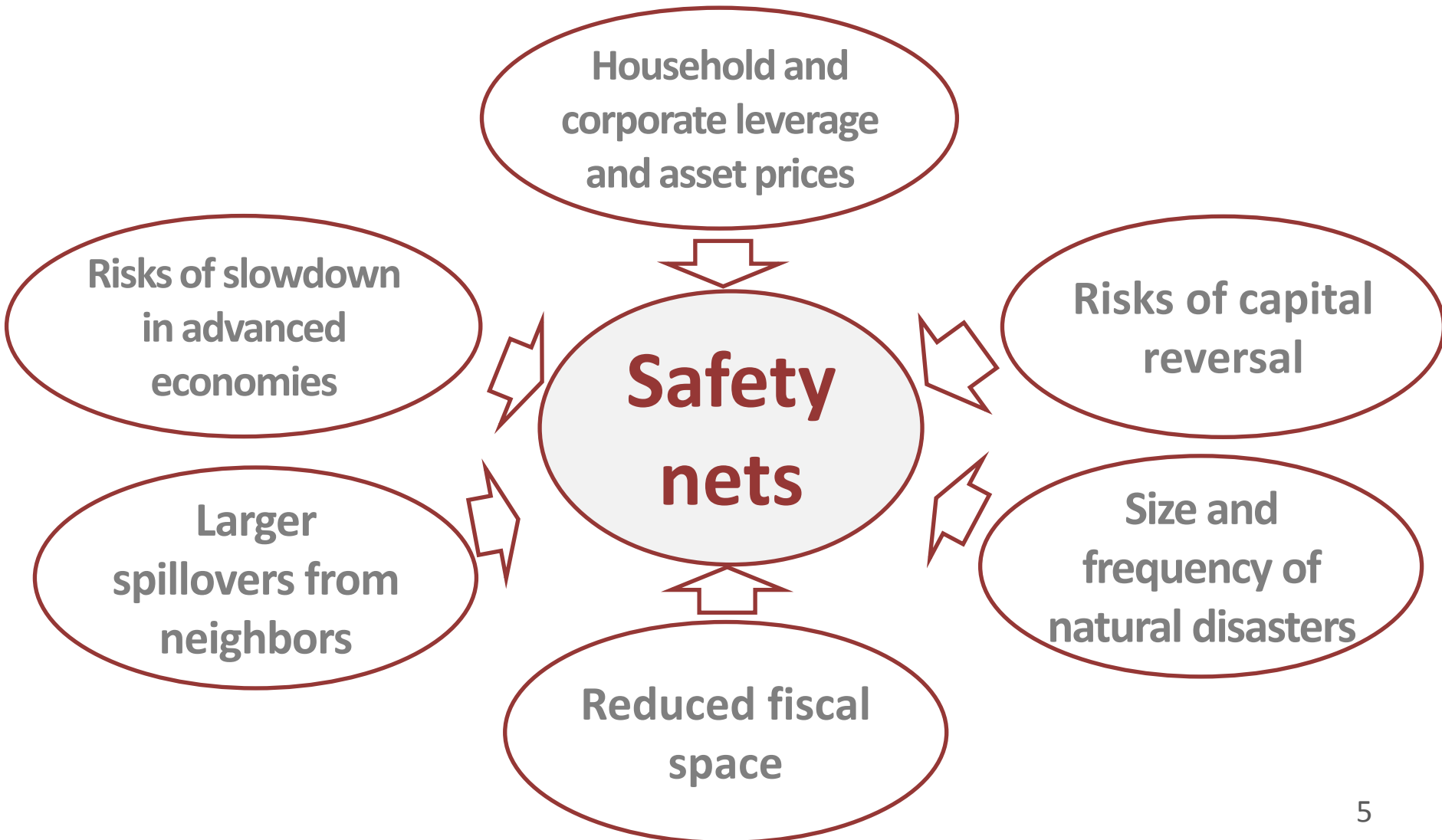
Net Purchases of Equity Securities



Net Investment in Debt Securities



The need to enhance safety nets



Layers of financial safety nets

Global Safety Net (IMF)

- Financing need could exceed those readily available
- Not significant global policy coordination in dealing with spillovers.
- Stagnated IMF reform

Regional Safety Net (RFAs)

Bilateral Swap Arrangement

- Access to USD liquidity during stress?

Self Defense (Foreign Reserves)

- Significant opportunity cost
- Valuation losses during FX appreciation

Chiang Mai Initiative Multilateralization (CMIM)

CMIM

A multilateral currency swap arrangement among ASEAN+3 members.

Core Objectives

- 1) To address balance of payments and short-term liquidity difficulties in the region
- 2) To supplement existing international financial arrangements.

Important Recent Developments

- Agreement to double the size from US\$120 bn to US\$240 bn
- Agreement to introduce a crisis prevention facility called “CMIM Precautionary Line (CMIM-PL)”

Role of ASEAN+3 Macroeconomic Research Office (AMRO)

Objectives

- To monitor and analyse regional economies.
- To contribute to early detection of risks, swift implementation of remedial actions and effective decision-making of the CMIM.

Important Recent Development

- Agreement to transform AMRO Company to AMRO International Organization

Immediate tasks for AMRO

- Enhance surveillance capability
- Strengthen data capacity of members, where requested by members
- Enhance collaboration with other International Financial Institutions (IFIs)

1) Macroeconomic Interdependence between China, Japan and Korea

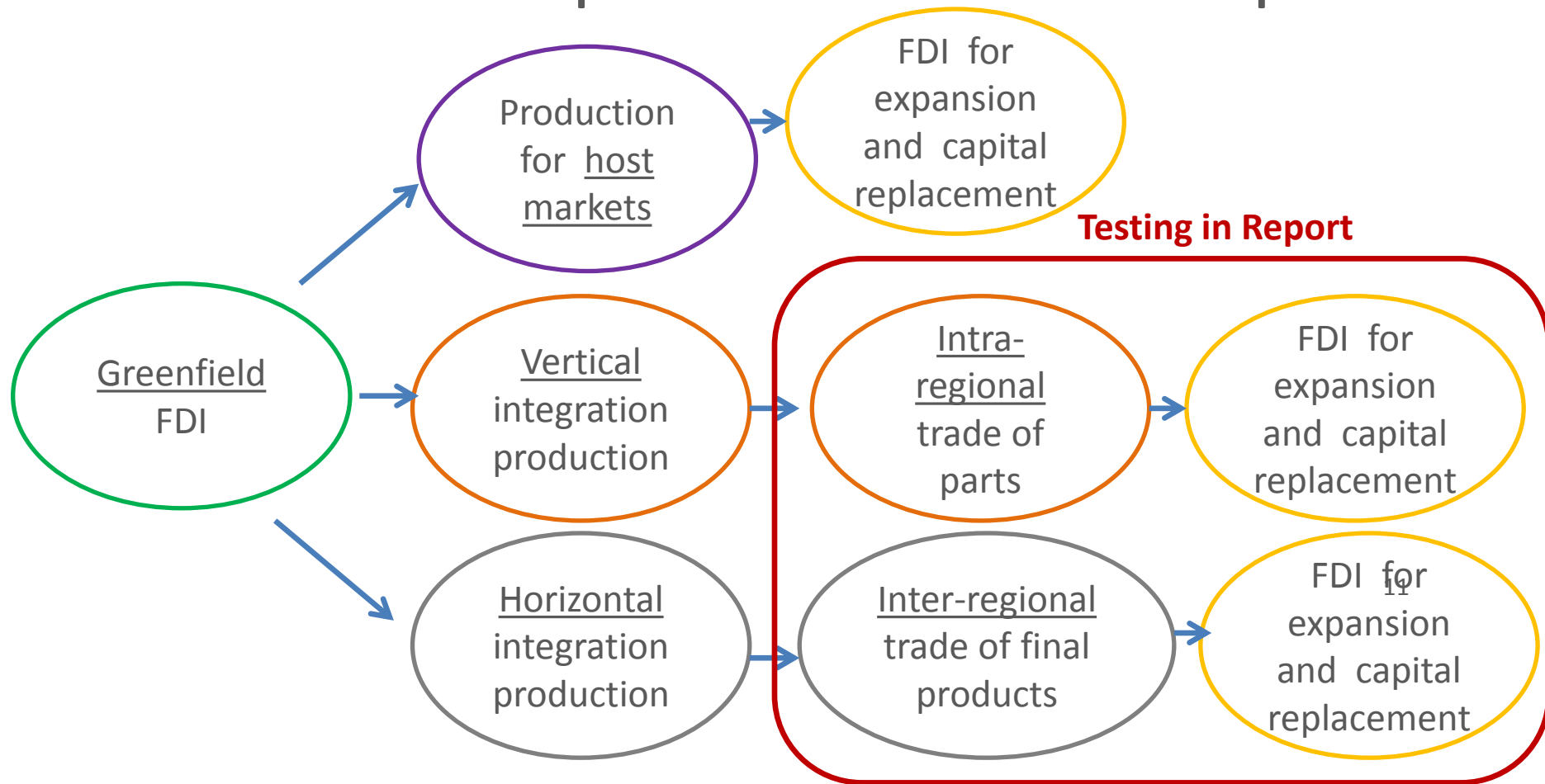
VAR analysis shows that shocks to China growth would have significant impact on growth in Japan (share of growth variance=14.8 to 27.9) and Korea (share of growth variance=15.1 to 23.0)

Questions:

- **Why is the impact size similar even though Korea exports rely a lot more on China (13.3 %of GDP) than Japan (2.1 %of GDP)?** Due the likely larger investment from China (unavailable portfolio inflows data) to Japan?
- **What will be the size of the impact of China growth on other regional economies? Even larger?**

2) Testing interdependence between trade and FDI

Problem: Does FDI depend on trade or does trade depend on FDI?



Inclusion of East Asian countries will make the study significantly more useful

Thank you