

Jim Murphy

**Introductory Remarks to the
Advisory Group on APEC Financial System Capacity Building**

Asia Pacific Financial Markets Integration Project

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At the 19th APEC Economic Leaders' Meeting in November 2011, APEC Leaders recognised the role that financial markets integration has played in the growth of the Asia Pacific.

The Leaders' Declaration stated:

'Today, as we gather in Honolulu, in the heart of the Pacific, APEC Leaders look out on a region that is performing beyond even the most optimistic expectations. Our region is now the vanguard for global growth, a status that we have achieved through a steady commitment to the APEC mission of regional economic integration and to the Bogor Goals of free and open trade and investment.'

I note that Australia has been leading this issue through the APEC Business Advisory Council and has made it a key priority for 2012. The maturity of the Australian financial services industry, and our expertise in developing a sound regulatory regime, means that Australia is well-placed to carry out this role.

This complements Australia's work in other forums, such as the G20, Financial Stability Board, International Organization of Securities Commissions, and OECD, to promote international and regional financial markets integration, and international cooperation in corporate governance, financial reporting, and corporate insolvency.

To understand the reforms that are currently taking place, and those that are being considered for implementation, we need to look at what has brought about reforms in the region, and what's driving those reforms.

It's estimated that Asia will be the world's largest economic region by 2030, with China and India making up the major part of the region's GDP. We have already seen Asia increasing its profile in the international arena with six Asian economies now represented on the G20.

Regional financial integration will achieve more efficient and effective intermediation of funds to enable at least some part of the surplus savings in the region to be used for productive investments, and at lower costs.

In turn, this may mean that the large investment needed to finance Asia's infrastructure needs will come from within Asia.

Following the Asian financial crisis of the late 1990s, various policy initiatives were undertaken to introduce reforms on several fronts — fiscal consolidation, monetary policy, improvements in financial supervision and regulation, and the development of regional financial markets.

The Governor of the Bank of Japan recently noted that, in hindsight, the Asian crisis could be seen as a blessing in disguise in the sense that it prompted tough reforms which in normal times may have been difficult to push through. The crisis has been the most significant trigger for regional economic and financial cooperation among Asian countries in the last few decades.

In the 12 years since the crisis, the pace of financial sector reform across most of Asia has accelerated. Work has progressed in building stronger regulatory structures, contributing to increased financial stability in the region.

Key initiatives include the creation of Asian Bond Funds, and regional arrangements for crisis management, including liquidity support and work that has been done under the auspices of the Executive Meeting of East Asia Pacific Central Banks for cross-border collateral arrangements for liquidity management.

Recent research suggests that Asia's degree of financial integration, both within the world and within the region, is relatively low, especially when compared with Asia's high degree of trade integration.

Typically a country's degree of financial integration tends to increase with its degree of trade integration. But when compared with the rest of the world, most Asian economies' rapid expansion into global trade has not been matched by a commensurate increase in their degree of financial integration.

Financial integration in the region attracts a lot of attention. Various international bodies such as the Asian Development Bank and the IMF have published research about its benefits. We have also seen ASEAN undertaking work towards financial integration in implementing the Economic Blueprint for the ASEAN Community.

The ASEAN Economic Community is the realisation of the goal of economic integration based on a convergence of interests of ASEAN member countries to deepen and broaden economic integration through existing and new initiatives with clear timelines.

Practical measures include a \$200 million loan from the ADB to the Philippines for financial sector reforms such as improving financial sector stability, increasing the efficiency and liquidity of markets and strengthening the regulatory environment. The ADB provided a further loan of \$15 million to Cambodia to promote reforms in the country's financial sector.

Before we discuss different aspects of regional financial markets integration, I'd like to briefly outline some of the work Treasury is doing in this area.

Asia Region Funds Passport

The proposal for an Asia Region Funds Passport was one of the recommendations of the Johnson Report, *Australia as a Financial Centre*. The Passport is being developed under the auspices of APEC.

The Passport would enable cross-border trading in securities without the need for fund managers to be licensed in each jurisdiction. As well, it would further the development of the region's capital market by re-cycling Asian savings within Asia.

Several APEC economies have been working to further develop the proposal. The work began in October 2010 with a Policy and Technical workshop in Kuala Lumpur and further technical workshops were held throughout 2011.

At their Honolulu meeting last year, APEC Finance Ministers noted that they expect further development of this work to explore the establishment of a pilot Passport.

Australia, through the Treasury and the Australian Securities and Investments Commission, is working with a group of APEC economies to develop a possible technical model for a Passport.

Centre for International Finance and Regulation

Another initiative, the Centre for International Finance and Regulation, illustrates how Australia wants to work with the rest of Asia.

The Centre will enhance understanding of global financial markets, their interconnectedness, and their influence on national economies.

The Centre was established in 2011 by the Australian Government, and is being hosted by a consortium of Australian and overseas institutions led by the University of New South Wales.

The Australian Government hopes that the Centre will enhance the links between Asian economies through the exchange of information and discussions between senior government representatives, financial regulators, academia and the private sector.