



FIRST JAKARTA FORUM ON ASEAN-CHINA RELATIONS

*East Asia Financial Cooperation:
Towards an Open, Inclusive,
Stable and Prosperous Region.*

Monday, March 4, 2019
Ritz Carlton Mega Kuningan,
Jakarta, Indonesia

Introduction

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On Monday, March 4, 2019, The Habibie Center together with the Mission of the People's Republic of China to ASEAN and the Permanent Mission of the Philippines to ASEAN held the **First Jakarta Forum on ASEAN-China Relations** on the theme of **'East Asia Financial Cooperation: Towards an Open, Inclusive, Stable and Prosperous Region.'**

The aim of the first Jakarta Forum was to encourage the dialogue and exchanges of different views to find out the new growth points and paths of East Asia financial cooperation. To this end, participants were derived from diplomats from the missions of ASEAN

Member States and Non-ASEAN EAS Member States, the heads of regional organizations including ASEAN Secretariat, ASEAN+3 Macroeconomic Research Office (AMRO), Asian Financial Cooperation Association, Trilateral Cooperation Secretariat, the experts and officials from ASEAN countries and China, and scholars from renowned local think tanks and research institutions.

The Jakarta Forum itself featured opening remarks, keynote addresses and three panel discussions as well as a closing remark. This discussion report summarizes the key points of each speaker, as well as the question and answer session that followed throughout the event.

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Opening Remarks



H.E. Huang Xilian
Chinese Ambassador to ASEAN

H.E. Huang H.E. Huang welcomed all participants to the forum, which he hoped the forum could provide a platform for the exchange of ideas and perspectives, stimulate discussions and offer possible solutions to common challenges in the region and beyond in an effort to be aimed to further energize the multi-faceted ASEAN-China relationship and move forward East Asia cooperation. He emphasized that it was important not to lose sight of the risks and challenges, so that East Asia would continue to be the engine of the global economy and a model of regional integration. He also suggested that the Forum was also to provide thoughts and

ideas for the broader Asia-Pacific, to achieve an open, inclusive, stable, and prosperous Asia-Pacific region and strengthen connectivity of the region and beyond. H.E. Huang highly commended the fruitful financial cooperation under APT framework with joint efforts of APT countries, which has contributed to financial safety and stability of East Asia. He called on closer regional financial cooperation to explore new potentials of growth against rising uncertainties in the global capital markets and growing financial risks.



H.E. Elizabeth P. Buensuceso
Permanent Representative of the Republic of the Philippines to ASEAN

H.E. Buensuceso highlighted that the event was among several

initiatives enhance ASEAN-China cooperation and nurture mutual trust, deepen friendship, promote cooperation and uphold regional peace and stability. The choice of Regional Financial Cooperation as the theme for the first edition of the forum reflects the region's efforts to pursue important reforms, with the aim to strengthen the resilience of the regional financial system. It also reflects the commitment of ASEAN+3 Leaders and finance officials to work together to improve the robustness of the region's collective economies, in order to contribute to strong, sustainable, balanced and inclusive regional and global growth, supported by an open and rules-based framework for multilateral trade and investment. In terms of financial integration, the low-hanging fruits have been picked. It is important to now identify and address further challenges together and explore mutually beneficial arrangements in this regard. As China's new Country Coordinator within ASEAN, the Philippines reaffirmed its commitment to work hard in elevating ASEAN-China relations to even greater heights.



H.E. Dato Lim Jock Hoi **Secretary General of ASEAN**

H.E. Lim noted that the organization of the forum in Jakarta was auspicious due to the fact that Indonesia had been a strong supporter of regional financial cooperation. More than 20 years after the AFC, East Asia is now much better prepared to face turbulence and financial cooperation has proven to be an important foundation for recovery in times of crisis. The ASEAN member states have made arrangements to better manage trade and capital flows and strengthened banking systems and cross-border linkages, as well as increased foreign participation in

capital markets. Obviously, risks and challenges remain, but the overall picture is one of greater resilience. Since the establishment of the ASEAN Economic Community, the region is committed to deepening economic integration. Trade costs in ASEAN are set to decline 10% by 2020, and integration of trade in services continues. Trade and financial integration are highly intertwined and greater trade tends to increase the demand for financial cooperation, as well as vice-versa. But financial cooperation will not only facilitate trade flows, but it will also increase regional resilience against external shocks. H.E. Lim outlined three critical areas for financial cooperation: Disaster risk financing, infrastructure financing, and digital financial transformation. The East Asian region should remain committed to financial reform, and strengthen its regime and crisis resolution mechanisms. There is a need to deepen particularly financial market integration. The region has to make sure that the market is well-informed, and well-engaged, for which the involvement of the private sector is crucial.



Keynote Addresses

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Dr. Chang Junhong
Director of ASEAN+3 Macroeconomic
Research Office (AMRO)

In his keynote address, **Dr. Chang** thanked the organizers and reiterated that the Jakarta Forum provides an important platform for the exchange of views and information on regional issues with the conjunction of the APT's 20th anniversary. Economic and financial cooperation continue to gain traction in the region, and negotiations such as the RCEP have paved the way for the establishment of the East Asia economic community. Inter-regional trade linkages continue to expand, with trade surpassing that between North America and Europe. As inter-regional demand increases, the region now relies less on outside demand. But challenges remain. The

global economy today faces profound and complex challenges in the form of protectionism and unilateralism. As the region has become more connected, external shocks can be transmitted quickly, amplifying the risk of a sudden stop of investment. Growing inter-regional linkages can mitigate the impact of these risks, but there is a growing need to look at non-traditional risks as well, such as cybercrime. Greater regional cooperation to counter these new risks is needed. East Asia has been in the frontline when it comes to financial cooperation. The experience of crisis has highlighted the importance of financial cooperation, but now the region is better equipped to face the risks of crisis, through the Chian Mai Initiative (CMI) and the enhanced surveillance capacity of the AMRO. Regional pooling of funds provides a line of defense in a potential crisis. In the future, it will be important to expand the scope of cooperation to include infrastructure financing, cross-border policy to improve inter-regional connectivity, deepen capital markets and well as common regulatory frameworks. These should all fall under the APT process.



Mr. Lee Jong-heon
Secretary General of Trilateral
Cooperation Secretariat (TCS)

At the 20th anniversary of the APT cooperation in 2017, the Manila Declaration had called for a further strengthening and deepening of the APT cooperation process. In his keynote speech, **Mr. Lee** emphasized that it is important to have collective wisdom and efforts in facing the new turbulent, inter-connected world where challenges cannot be solved by any single country. The Trilateral Cooperation Secretariat (TCS) has been established to promote peace and common prosperity in the region and provide support for trilateral consultative mechanisms. Through its joint efforts in dealing with the AFC, the APT process has

become an indispensable part of East Asian regionalism. In this regard, the establishment of the TCS in 2011 marked a milestone in the progress made so far. East Asia is the most economically dynamic region in the world. Based on this potential, community building in East Asia can propel the region even further. Therefore, it is imperative for stakeholders to continue the strengthening of regional financial safety nets and promote a rules-based integration in various fields.



Mr. Yang Zaiping
Secretary General of the Asian
Financial Cooperation Association
(AFCA)

Mr. Yang reminded the participants that when the international financial

crisis swept the world after being triggered by the US subprime mortgage crisis, the East Asian economy kept relatively stable growth. This seemed to signal the exceptional revival of the East Asian economic miracle. Apart from specific East Asian factors conducive to economic development, the current East Asian miracle must be credited to active financial cooperation in the region. Countries in the region have learned their lessons from the AFC and realized that ignorance to regional cooperation, beggar-thy-neighbor policies and currency wars will trigger widespread crisis and cause severe consequences. Based on this consensus, the countries developed a number of mechanisms including the setting up of AIMO, the CMI, and the AMRO. As protectionism and unilateralism are once again resurgent, cooperation is vital in the common interest of mankind. Still, the current level of economic integration in East Asia is still low. The intra-ASEAN trade accounts for about 30%. Meanwhile, although the East Asian people have accumulated high deposits, 80% of the these deposits are invested outside the region. Therefore, there is an enormous potential for economic integration as well as trade and investment in East Asia. It is

important to upgrade the established cooperation framework in a more pragmatic direction. Countries in the region should consider establishing a regional network for financial stability, a stable, sustainable, and risk-controlled financial security system, and strengthen financial risk prevention and assistance in the region. Finally, they should actively support the establishment of an East Asian Monetary Fund.

PANEL DISCUSSION 1:

**Regional Economic
Governance**



Chair: Prof. Liping He
Beijing Normal University

At the beginning of Panel 1, the chair **Prof. He** highlighted the important political role that the Asian Financial Crisis (AFC) played in bringing East Asian countries closer to one another. The Global Financial Institutions were not seen as having played a sufficient role, so the region needed something additional. Another reason for the emergence of the East Asian system of economic governance is that the region with the world's largest population and some of the strongest economies in the World will require strong macroeconomic governance as well.



Ms. Han Mei
Deputy Secretary General of the APT
Trilateral Cooperation Secretariat

In her presentation, **Ms. Han** outlined the features of trilateral cooperation under the ASEAN Plus Three (APT). The intra-regional share of trade APT is 40% of all ASEAN trade, with APT having advanced the process of integrated regional supply chains. All APT countries have been strong beneficiaries of globalization however. Now, entering the third decade of trilateral cooperation, Ms. Han argued that the process of regionalization should be stepped up with the aim of exploring new areas of cooperation. The FTA process could be accelerated and made a

priority under the APT agenda. An idea is to establish pilot FTA zones. Other areas with potential include the exchange of technological innovations, progress in big data and others. China and Japan have several comparative advantages, such as technological innovations, but also governance features such as smart cities. This should be complemented with the comparative advantages of the ASEAN region to leverage shared opportunities.



Dr. PisitPuapan

Executive Director of the
Macroeconomic Policy Bureau,
Ministry of Finance of Thailand

Mr. Puapan contributed insight on the historical development of the

Chiang Mai Initiative (CMI) in his presentation. Twenty years ago, at the establishment, the initiative's portion that was de-linked from the IMF was 20%, now it's 30%, highlighting that the arrangement has become more independent. Global financial volatility remains a problem, so it's important for the region to have adequate tools to sustain stability. Under the Thai-Chinese co-chairmanship of the financial track of the APT, they have set themselves the goal of further promoting the CMI and the Asian Bond Market Initiative. The second one is particularly important as it aims to channel liquidity into local markets of the region. Overall, the common goal here is to rely less on foreign currencies and strengthen the financial resilience of the region. The next ASEAN Finance Ministers' Meeting (AFMM) will have a focus on questions of sustainable finance, digital assets, and cybersecurity.



Mr. Tristan Zhuo

**Senior Economist, Bank of China
(Hong Kong)**

Mr. Zhuo took a slightly broader view of the region's economic governance, talking about the Why, the What, and the How of financial integration in the ASEAN region. Despite the progress made, pace in financial integration as well as trade in services has been slower than that in trade in goods. This applies not just to ASEAN but the East Asian region more generally. The low-hanging fruit has been reaped, achieving interlinkages in goods trading has been easy, but now the challenges begin. Nonetheless, intra-regional trade

has remained low because it's the bigger economies in the region that lead the value chains. How can better trade integration be achieved? Each country will have to improve its economic governance. Countries should remember that economic integration in itself is not a panacea for stability. Only by improving domestic economic governance can countries make financial integration work.

Question and Answers

In the interest of time, no **Q&A** was conducted following the session

PANEL DISCUSSION 2:

**Regional Financial
Stability and Building
of the East Asian
Financial Market**





Mr. Yasuto Watababe
Deputy Director of AMRO

Mr. Watanabe focused on the institutional setup of the APT Macroeconomic Research Office (AMRO), which monitors the economic outlook of all 14 member states, including Hong Kong, as well as risk to capital flows and market volatility. The CMI provides members with insurance against crisis risks and USD liquidity. Compared to the European Stability Mechanisms, the AMRO has a narrower mandate, but its USD 240 million is the second largest financial pool in the world after the EU mechanism. What is the way forward for the region? It is necessary to strengthen the

financial safety net of the region. The IMF alone is not large alone and the region needs its own options. The APT financial safety net is multi-layered and provides various options: The bilateral currency swap arrangements, the CMI, and the IMF. But the CMI is not a fund, rather a loose form of funding. The challenge is therefore to strengthen the financial safety net by upgrading the CMI, introduce new facilities to the region and thereby reduce the reliance on the USD.



Ms. Wilhelmina C. Mañalac
Assistant Governor of the Monetary Stability Sector of the Central Bank of the Philippines

To begin her presentation, **Ms. Mañalac** asked the question of how

regional financial cooperation can be upgraded. The current economic outlook is a little dim, including for emerging economies. These risks related to the current trade tensions and financial market sentiments are difficult to navigate. So what can be done in this time of uncertainty? One option is to look at domestic policies and clean our own backyard, another option is to support multilateral cooperation, helping to fix the village. Under APT, policy dialogues could be enhanced by focusing on particular issues and moving them downwards to the working groups level, to enable closer cooperation between partners. Surveillance mechanisms could also be strengthened. AMRO is already there, but there could be a fully independent surveillance body for the region. The CMI could be boosted and made bigger. These options are the low-hanging fruits, which are to use existing structures and continue work on them. This has already been successfully done in the past, such as when the CMI envelopes were doubled and the IMF-delinked portion was increased. Other options for enhanced cooperation would be to encourage the use of more local currencies or support the spread of financial technologies.



Mr. Haris Munandar
Deputy Director, International
Department of Bank Indonesia

In his presentation, **Mr. Haris** highlighted that financial stability is not a monolithic activity but instead the responsibility of many institutions within the states. But in addition to this in-country coordination, countries can also work together to attain larger stability in financial markets. The AFC happened in the 1990s because there was a lack of prioritization on financial sustainability and inclusion in the region. Looking at the ASEAN Economic Community Blueprint 2025, there is a financial track with three pillars. These are focused

on exactly these three aspects, increasing financial integration, inclusion, and stability. The overall goal is to create financial safety nets for the member states, particularly through a strengthening of the Chiang Mai Initiative.



Dr. Aladdin Rillo

Deputy Secretary General for AEC of ASEAN

Mr. Rillo took the stage with the objective to simplify the discussion around financial sector risk. It is clear that financial stability has repercussions to the economy overall due to its underlying importance. The current objectives should be to come up with mechanisms to manage

financial risks and to improve their effective functioning to enable macroeconomic stability. But there are limits to managing this risk, as risks always come from external factors. Moving forward, there is always a need to come up with definitions of what the important conditions are for financial stability in East Asia. To Mr. Rillo, these are related to integration. Trade and financial integration should be deepened. Macro-prudential tools should be used proactively and new approaches to manage regional financial stability should be adopted. The Asian Bond Market Initiative is good, but there is a further need to strengthen the use of local currencies and issue bonds in them. To summarize. Financial stability is important and more needs to be done. The solution is to continue integration and come up with a better approach how to cope with current developments such as Industry 4.0.

Question and Answers

In the following **Q&A**, two questions were asked. One pertained to the possible role of the ASEAN Secretariat (ASEC) in the

financial integration of the region. The second question pertained to the strengthening of the regional financial safety net. Asked about the role of ASEC in providing analysis to the East Asian financial markets, one panelist highlighted the importance of the three-tiered intergovernmental dialogue under the APT, which requires initiation from government representatives. There has already been a move for impulses to come from lower levels, which have suggested important agenda items. Perhaps there has to be a commitment from the leaders on what they want to do, then it should not take too much time. It should also be considered that the dialogues encompass the APT, not just ASEAN itself, which makes deployment of ASEC difficult. Another panelist suggested that ASEC has been actively involved and continues to be as proactive as possible, but that it is strapped to the authority given to it by the member states. The ASEAN Integration Monitoring Directorate (AIMD) is providing a variety of reports to understand the developments in the region, which include recommendations to ministers. To

improve the value added by these reports, member states need to provide more authority to ASEC. The second question focused on the timeline to increase the de-linked portion of the CMI beyond 30% and the concrete activities that are being taken to do this. One panelist suggested that the technical level had already attempted to increase funds and the de-linked portion in 2016, but this had not fallen on fertile ground. AMRO needs to do better to push this further in the future. But AMRO continues to have a role as a trusted advisor for the member states, which is why they will suggest increasing the de-linked portion again. It is important that this mechanism is strengthened. The top bodies need to realize this and commit, make it a priority.



PANEL DISCUSSION 3:

**Cooperation on
Asian Bond
Markets Initiative**



Mr. KosintrPuongsophol
Financial Sector Specialist of the
Asian Development Bank (ADB)

In Panel 3, **Mr. Puongsophol** began with a historical overview of the Asian Bond Markets Initiative (ABMI) including its organizational structure and objectives. The supply of local currency bonds, the standardization of rules and regulations as well as the standardization of financial market infrastructures have been the primary activities of the ABMI. One component under the ABMI pertains to capacity building, under which CLMV countries have received support. Mr. Puongsophol remarked that the Southeast Asian

bond markets were surprisingly large when compared with the countries' GDP, larger than some European bond markets. The goal of the ABMI is to continue to deepen and expand the activities as well as to increasingly collaborate with other organizations on the issues described.



Mr. Book Hock Khoo
Vice President of CGIF

Mr. Boo then provided insight on the Credit Guarantee and Investment Facility under the ADB. Their guarantees help lower-rated bonds to attract investors. The facility also supports cross-border bond-trading, extended tenure

of bonds and allows publicly listed companies from the member states to reach offshore buyers, such as Japanese insurance agencies that want to invest in Indonesian rupiah bonds. In addition, they are also involved in capacity building activities, developing new bond markets in Cambodia and Laos. Impressively, the facility has so far recorded zero default claims, which underlines that the region has high-quality investment opportunities and good financial operations. Mr. Boo argued that international rating often do not accurately reflect what the region is capable of, with Asian countries' B and BB ratings often misleading potential investors. This is potentially problematic given the high amount of savings within the region that is flowing out to other continents. Mr. Boo emphasized that the Asian population should remember that these are the region's savings and that no external party should tell market stakeholders that their region is not worthy of their savings. It would be a tragedy of Asian savings could not be invested in Asia itself.



Prof. Liping He

School of Economics and Business Administration, Beijing Normal University

Prof. He provided a historical overview of the bond markets of China, Hong Kong, and other Asian markets. The rapid development from 2003 onwards has been striking, particularly with the emergence of so-called Panda Bonds denominated in RMB, from 2015 onwards. Dim Sum bonds, based in Hong Kong, as well as offshore dollar bonds were also notable phenomena, from an academic viewpoint. Prof. He argued that currently, there were more opportunities than ever

for Asian bond markets to create connectivities between them, since the supply-side had seen so many innovations in recent years.



Poltak Hotradero

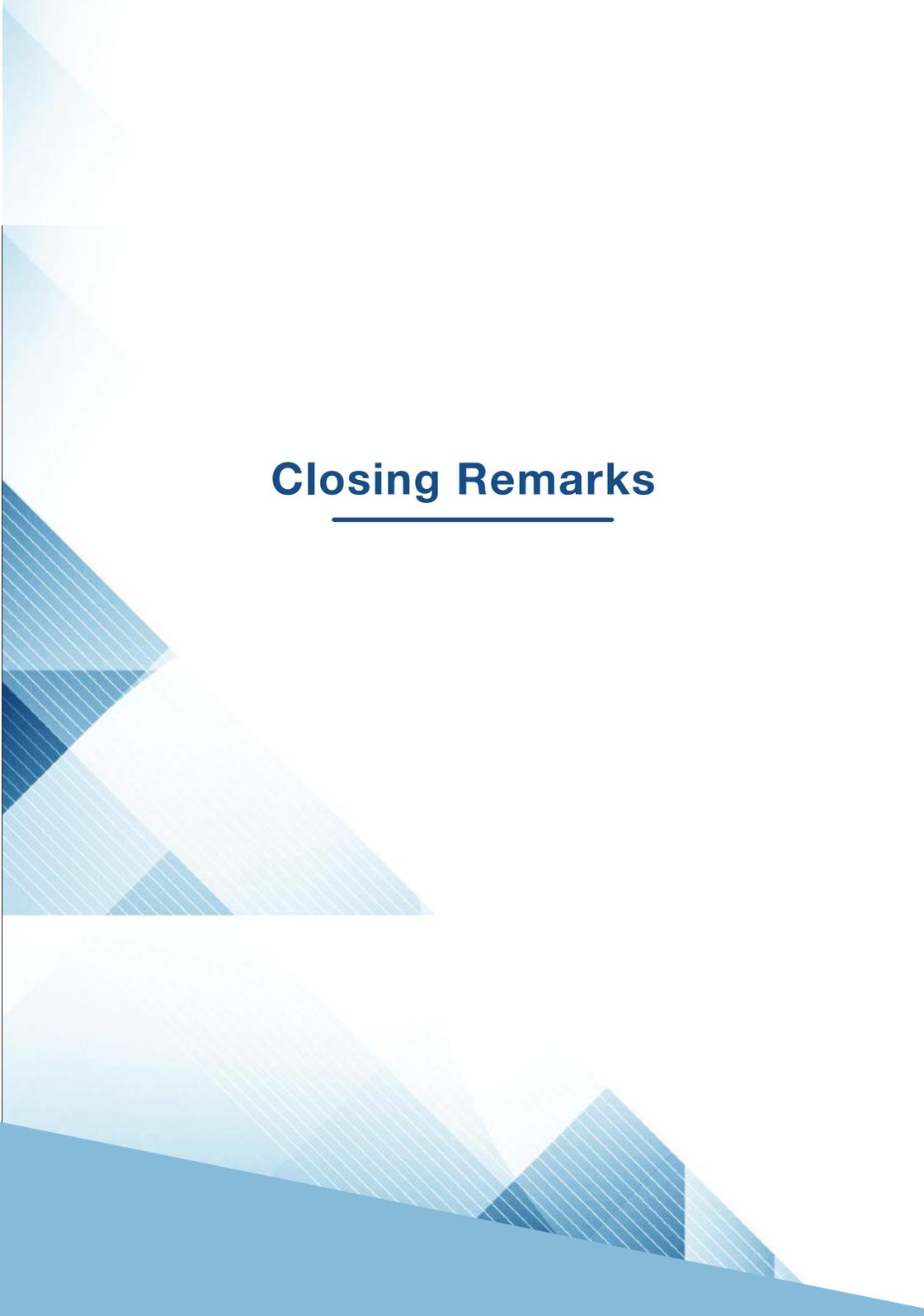
Senior Researcher, Indonesian Stock Exchange

In his presentation, **Mr. Hotradero** focused more on the demand-side of Asian markets rather than the supply-side. He rhetorically asked the question of where the demand actually comes from and then provided some insight into the key stakeholders in Asian bond markets. His main argument was that the ageing populations across Asia are creating pressure from the side of

pension funds, which already make up a huge market which continues to grow. These pension funds, however, are facing the problem of where to deploy their capital. Yields in many markets are now very low, sometimes even negative in real terms. Much of the coming growth is thought to occur in the developing world. Since sovereign wealth funds are big and looking for places to invest, Southeast Asian needs to address this demand, providing a place to accommodate the needs of these pension funds looking for returns.

Question and Answers

Following the presentations, one **Question** was asked pertaining to the mechanisms leading to the selection of bonds under the Credit Guarantee and Investment Facility. If there had been zero defaults, did that mean that they had been overly selective in which issuers to allow to their scheme. The answer was that the criteria were not overly strict, but instead quite simple with respect to analysis and company track record. The facility considered aspects of corporate governance particularly important in their due diligence.

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Closing Remarks



Dr. Mohammad Hasan Ansori **The Habibie Center**

The Closing Remarks, delivered by **Dr. Ansori**, thanked all panelists for their contributions as well as the distinguished keynote speakers for their insights. With China being one of the most important dialogue partners of ASEAN, events like this were considered very important to discuss areas of cooperation. Dr. Ansori suggested that attention may

be paid to the political-security, economic as well as socio-cultural pillars of ASEAN, which are all part of the ASEAN-China relationship. Given the size of the Chinese economy and the fact that economies are increasingly connected in the 21st century, the relationship may bring huge opportunities but also challenges to be addressed.





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