ASEM conference: Investment and its Financing
What causes private investment to remain relatively low in Asia?

Discussion of ‘Experiences from Europe for better channelling savings to investments’ by Moreno Bertoldi

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Overview

- Presentation gives a comprehensive overview of the European Union's approaches to improve the channelling of savings to investment at regional level, covering the essential components:
  - Integrated markets
    - banking & finance
    - financial markets
  - Macroeconomic surveillance
  - Investment bank & PPP

- Discussion of paper focuses on:
  - Integrated financial markets in Europe and Asia
  - Macroeconomic surveillance
  - Implementation of regional reforms

Selected European Experiences

Regionally integrated financial markets in Europe have importantly contributed to the efficient allocation of savings

But further progress regarding integration essential:

- Wholesale and securities-related banking activities continue to be more integrated than retail banking
- Macroeconomic and financial stability: recent financial crisis has negatively affected the integration process in important market segments
- While regulation has been largely harmonised across Europe, supervision as well as financial crisis management have remained primarily the responsibility of the home country
- In response to the recent financial crisis the European System of Financial Supervisors (ESFS) is in the process of being established, which consists of three supervisory agencies: the European Banking Authority (EBA, the European Securities and Markets Authority (ESMA); and the European Insurance and Occupational Pensions Authority (EIOPA)

European Central Bank (2010) Financial Integration in Europe 2010

Pisani-Ferry & Sapir (2010), Banking Crisis Management in the EU

Banking and Finance in Asia

Important deregulation efforts have been undertaken by ASEAN countries since the Asian financial crisis

Case: cross-border banking

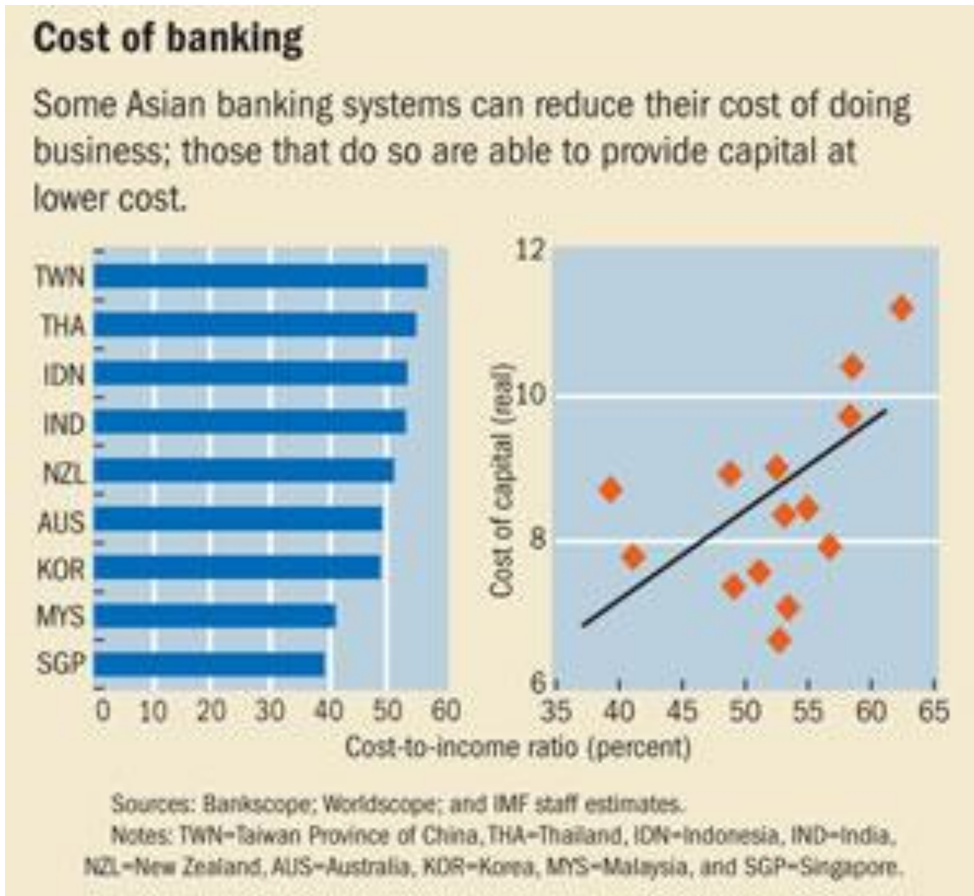
- Important progress has been made in some countries but progress has not been uniform across countries

European experiences:

- Introduction of common currency contributed importantly to progress in cross-border banking
- Recent financial crisis showed that consistent area-wide regulatory and supervisory framework facilitates integration and enhances efficiency and competitiveness in the financial sector

Banking & Finance in Asia

Banking costs remain high in some Asian countries with important differences between countries



Source: S. Kalra (2010), 'Deeper Markets, Cheaper Capital' in Finance & Development, vol. 47 no. 2

Bond Markets in Asia

Main initiatives:

Asian Bond Market Initiative, ABMI

- Development of local currency markets
- Development of more accessible and better functioning regional markets

ASEAN Capital Market Forum, ACMF

- Harmonisation of capital market regulations

Status:

- Important growth of local-currency bond markets since Asian crisis
- Corporate bond markets little developed but important increase in corporate bond issues in 2009
- Secondary markets little developed
- Integration of regional markets is increasing but Asian economies remain more integrated with global financial markets

Bond Markets in Asia

Issues :

- Market development in countries differs importantly
- Important barriers to cross-border transactions continue to exist; cross-border transaction costs remain high in ASEAN+3 and are in general higher than in the US and Europe

European experience:

- Apart from the reduction of barriers to cross-border transactions the introduction of the common currency has been essential for market integration;

ABMI Group of Expert (2010) Final Report Part I: Estimation of Cross-Border Bond Transaction Costs

Blommestein (2009), A Primer on Bond Markets in Asia

Borensztein & Loungani (2011), Asian Financial Integration

Park & Wyplosz (2008), Monetary and Financial Integration in East Asia

Strengthening Macroeconomic and Financial Surveillance Is Essential

Current Asian initiatives:

- ASEAN Surveillance Process, ASP, which started as a mechanism for peer review on recent economic development, resulted now in a high-level finance and macroeconomic surveillance office (Macroeconomic and Financial Surveillance Office, MFSO (expected to be operational in 2011))
- ASEAN+3 Macroeconomic Research Office (AMRO), an independent regional monitoring and surveillance unit will be established in Singapore in early 2011

Current European initiatives:

- Establishment of independent body responsible for macro-prudential supervision, European Systemic Risk Board (ESRB)
- Mechanism such as an alert mechanism and an integrated macro-structural surveillance of policies in the process of being implemented

Strengthening Macroeconomic and Financial Surveillance Is Essential

Macroeconomic and financial surveillance is essential for

- Detecting macroeconomic imbalances at an early stage
- Ensuring macroeconomic and financial stability

Both of which are important prerequisites for functioning financial markets and improved channelling of savings to investments

Critical issues:

- Binding commitment of countries to implement policies and reforms
- Process of implementing policies and reforms

Implementation of Policies and Reforms

Speed and quality of implementation of reforms differ across countries in Europe and Asia

Basic institutional approaches used in Europe to implement reforms:

- Formally binding international agreements, and
- Use of benchmarks (open method of coordination) to monitor the implementation of reforms in countries

European experience

- Experiences with international agreements was mixed in the case of the single markets
- Use of benchmarks has not yet been sufficiently tested