



**YEARS OF CONNECTING
ASIA AND THE PACIFIC**



REGIONAL FINANCIAL COOPERATION

- MAIN FOCUS AREAS



- ● ● 1. **Financial Stability** – fragmented regional arrangements.
- 2. **Capital Market Development** – underdeveloped and bank dominated.
- 3. **Infrastructure Financing** – substantial investments needed.
- 4. **Financial Inclusion** – large credit gap for SMEs.
- 5. **Domestic Resource Mobilization** – low tax revenues and strong tax competition.



FINANCIAL STABILITY

1

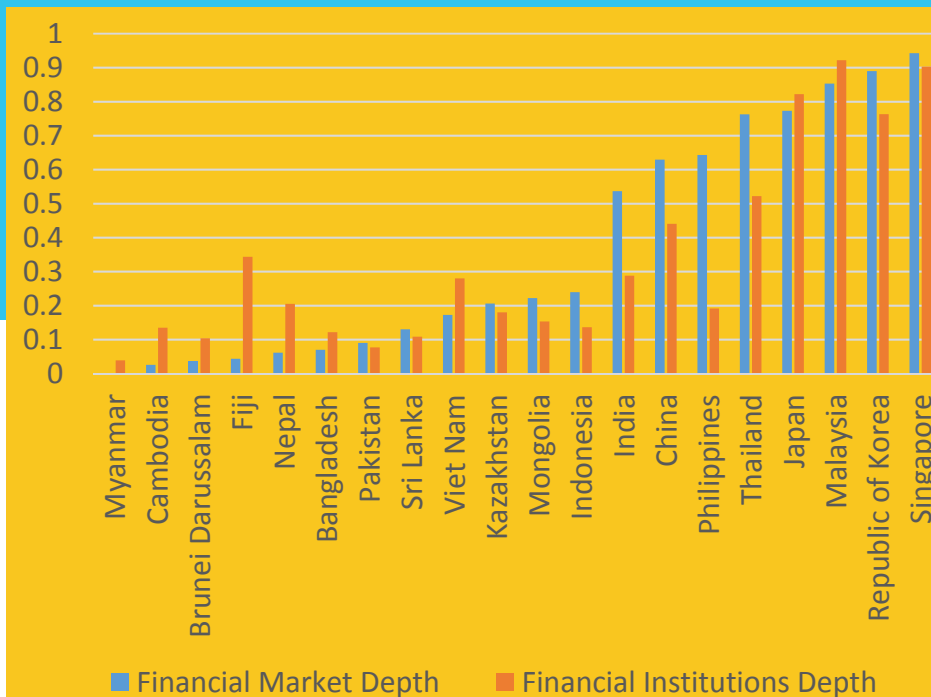
Institution	Framework/Facility
ASEAN, ASEAN+3	Chiang Mai Initiative Multilateralization, Economic Review and Policy Dialogue, Macroeconomic Research Office, Surveillance Process
EAEU	Eurasian Fund for Stabilization and Development
SAARC	Framework on Currency Swap Arrangements

- The existing arrangements for economic surveillance and liquidity support needs to be developed further in terms of resources, region-wide coverage and reliance.
- Capacities to formulate and monitor conditionalities, associated with emergency lending, needs strengthening.
- Developing regionally harmonized and enforceable macroprudential policy frameworks would a step in the right direction.

CAPITAL MARKET DEVELOPMENT

Financial Development in Selected Asia-Pacific Countries (2014)

2



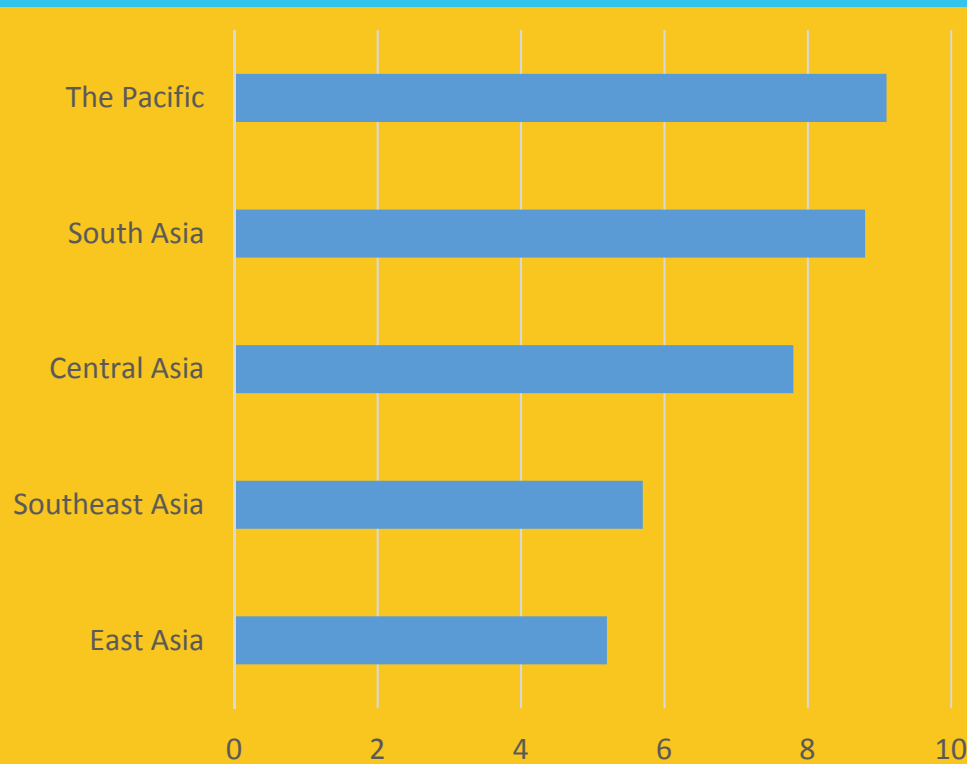
Source: ESCAP

- To reduce excessive reliance on banks, both issuer- and investor-base needs to be expanded.
- Development of domestic long-term institutional investors should be fostered.
- Financial market infrastructure needs to be developed further, both within and across countries.

INFRASTRUCTURE FINANCING

Infrastructure Investment Need as Percentage of GDP (2016-2030)

3



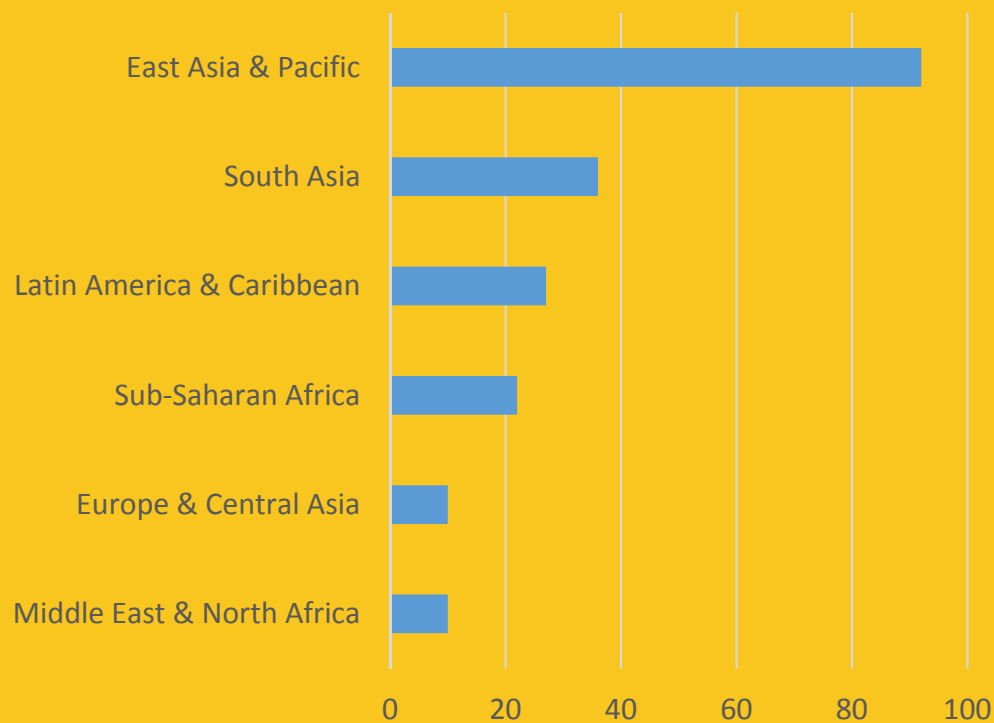
Source: Asian Development Bank

- To meet the infrastructure investment needs, public sector is expected to do the heavy-lifting; this may not be sufficient though.
- Efforts to develop competitive and efficient financial markets would be critical.
- Involvement of private sector, including through PPPs, and enhancing cross-border financing mechanisms would be helpful.

FINANCIAL INCLUSION

Number of SMEs Facing Credit Gaps in Millions (2015)

4



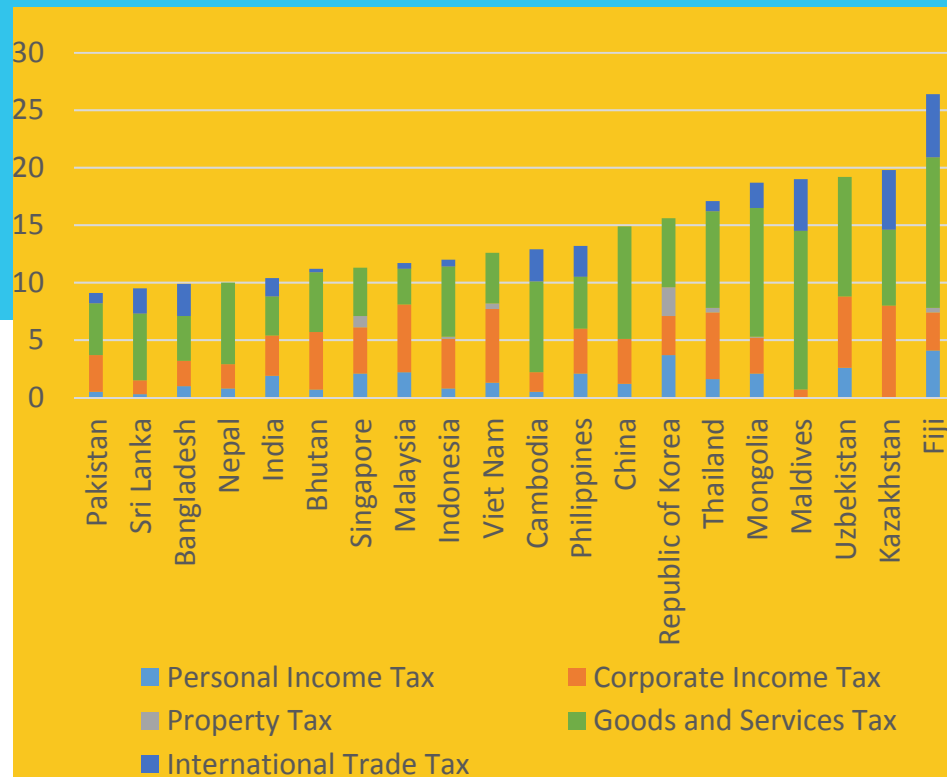
Source: World Bank

- Potential of fintech companies and microfinance institutions, in enhancing access to financial services, need to be explored, keeping in view the associated risks.
- Development of supportive supervision and regulatory frameworks, along with building capacities of countries to implement them, would be helpful.

DOMESTIC RESOURCE MOBILIZATION

Tax Revenue (% of GDP) in Selected Asia-Pacific Countries (2014)

5



Source: ESCAP

- There is considerable room to increase tax revenues, improve their composition, and enhance public expenditure efficiencies.
- Several countries are competing in offering excessive corporate tax incentives; regional cooperation can help avoid this “race to the bottom.”
- Improvements in tax policy and administration can also help address region’s challenge of rapid urbanization and widening inequalities, among others.

TAKEAWAY POINTS

- ● ● **1. Financial Stability:** enhance resources, region-wide coverage and reliance of existing arrangements, and strengthen surveillance capacities and regulations.
- 2. Capital Market Development:** expand issuer and investor base, and develop a supportive financial infrastructure.
- 3. Infrastructure Financing:** enhance PPPs and cross-border financing, with governments providing an enabling environment.
- 4. Financial Inclusion:** promote microfinance institutions and fintech companies, while balancing financial stability considerations.
- 5. Domestic Resource Mobilization:** enhance tax revenues and avoid “race to the bottom” tax competition.

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