

# Forging a Financial Future for the Asia-Pacific



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**The Philippines is taking a leadership role in APEC development efforts this year. A top policymaker discusses the path to regional integration and inclusive economic growth.**

This year, the Philippines hosts the Asia-Pacific Economic Cooperation meetings. The central agenda driving our Finance Ministers' Process is the Cebu Action Plan (CAP), a roadmap for inclusive and resilient economies in the region. Four ideas form each pillar of the CAP, each one serving as both a response to current challenges and a vision to pursue opportunities.

#### **Promoting Financial Integration**

Financial integration in the Asia-Pacific region can pave the way for greater intraregional trade and investment, as well as more developed financial markets. Such integration involves addressing the following areas: development of supply-chain financing; liberalization of financial markets to allow the entry of financial services providers

across APEC economies; capital account liberalization to gradually remove restrictions on foreign exchange transactions and the Asia Region Funds Passport to facilitate cross-border marketing of managed funds, foreign direct investments, portfolio investments and other flows while ensuring adequate safeguards; reduction of remittance costs; and spurring capital market development to strengthen Asia-Pacific's market infrastructure and eventually link and harmonize regulations.

For example, Asia is the world's wealthiest region, with 34.2 percent of global private financial assets, amounting to US\$52 trillion (followed by America's 33.1 percent). Yet it professionally manages only US\$10.6 trillion, or 15.4 percent of global assets.<sup>1</sup> With the current Asia

Region Funds Passport initiative to improve efficiency, a simulation shows that “if the current costs of managing funds in Asia can be lowered by only 20 basis points, a savings of more than \$20 billion U.S. dollars per annum can be achieved.”

A good example, although not entirely similar, was that of the European Union before the crisis. According to the European Central Bank, financial integration decreased interest rates by up to 70 percent on average in 2012 compared to 1990 levels, benefiting households and corporations through lower financing costs.

### **Advocating Financial Transparency**

The second pillar, financial transparency, allows greater scrutiny that leads to a more efficient use of government resources for development priorities such as the provision of social services and other crucial public goods. To this end, we propose the development of Open Government Data Portals among APEC economies that will be linked into one website.

Easily accessible public sector information through the UK's Open Data initiative is valued at approximately UK£1.8 billion. Examples include using live data from Transport for London in apps that can save users time, translating to economic value in the range of UK£15 million to UK£58 million per annum.<sup>2</sup>

Further, financial transparency will prevent illicit financial flows and trade underinvoicing, estimated at US\$1 trillion in 2012. This is 1.3 times larger than foreign direct investments and 11 times larger than official development assistance to developing countries, according to the Global Financial Integrity think tank.

### **Enhancing Financial Resilience**

The third pillar is enhancing financial resilience. This has become vitally important after the world experienced four consecutive years—2011 through 2014—in which annual economic losses exceeded US\$100 billion.

Unfortunately for APEC, the Asia-Pacific region accounts for 70 percent of global natural disasters, based on United Nations data. A World Bank study showed that adapting to a 2-degree Celsius warmer world by 2050 would cost US\$75 to US\$100 billion a year, which the developing economies of APEC cannot spare. Thus, we must consider disaster risk financing and insurance mechanisms through risk-pooling funds, catastrophe bonds and disaster response financing for rebuilding and rehabilitating infrastructure.

### **Supporting Infrastructure Development and Financing**

Finally, another reality of the Asia-Pacific region is the need for connectivity. Thus, APEC leaders endorsed the APEC Connectivity Blueprint for 2015-2025 focusing on physical, institutional and people-to-people connectivity. For our part, the Finance Ministers' Process has already been taking action on improving infrastructure development and financing, with a focus on public-private partnerships.

To further hasten and strengthen existing PPP programs across APEC economies, a PPP knowledge portal and standardization of PPP terms and practices can help to ensure that projects are financially viable while drawing private sector support. If PPP project terms and practices were standardized, APEC firms that participate in their home

economy's PPP project may already have the necessary knowledge and capability to participate in projects throughout the APEC region. On the other hand, APEC economies will benefit from best practices to ensure that infrastructure is being developed to support expanding trade and development. An example of good results in this sphere is Australia's Rolling Stock rail project, in which the preferred proponent provided a bid 30 percent lower than the public-sector comparator.<sup>3</sup>

### **Conclusion**

APEC nations are addressing these issues at the country level to varying degrees and they are at varying stages of progress. Similarly, global factors and country-specific circumstances also influence each country's needs, pace of progress and priorities. However, as APEC economies integrate, convergence on these issues will be needed. For this reason, a medium-term regional roadmap is proposed to help guide regional and country actions that reflect regional and country priorities.

During its hosting of the APEC FMP in 2015, the Philippines is actively engaging stakeholders in ensuring that the region's needs and priorities are considered. Throughout this year to our finance ministers' meetings on September 10 and 11 in Cebu, the region's economies are coming together to jointly shape APEC's evolving role, solidifying the region's sustainable growth and inclusive development.

We are proud to take the lead this year in creating an environment for shared prosperity in the region. I look forward to the outcome of our September meetings and to the long but exciting road beyond.

1. Boston Consulting Group, Perspectives 2014.

2. Deloitte, Market Assessment of Public Sector Information.

3. APEC FMM Secretariat, Infrastructure Public-Private-Partnership Case Studies of APEC Member Economies 2014.