

**OECD-ADBI 11th Roundtable on Capital Market Reform in Asia
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Opening Remarks

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Mr. Adrian Blundell-Wignall, Deputy Director, Directorate for Financial and Enterprise Affairs, OECD,
Mr. Andrew Sheng, Chief Adviser, China Banking Regulatory Commission,
Mr. Hans-Helmut Kotz, Member of the Executive Board, Deutsche Bundesbank and Chairman of OECD's Committee on Financial Markets,

Colleagues, Ladies and Gentlemen,

Good morning,

It is my great pleasure to welcome you all to the Asian Development Bank Institute and the 11th OECD-ADBI Roundtable on Capital Market Reform in Asia.

I would like to extend a very warm welcome to our friends from the OECD, our partner institution in this event, and to Mr. Andrew Sheng and Mr. Hans-Helmut Kotz, the Roundtable's Chairpersons.

As many of you may already be aware, this Roundtable is an annual event that we have been co-organizing with the OECD for more than a decade. Last year, we discussed the causes of the latest financial and economic crisis, its impacts on Asia and Asian policy responses, including the implications of the resulting market turmoil on capital market development in Asia.

Over the past year, a collapse in global demand severely hit the region's exports and economic activity, and policymakers in Asia implemented monetary policy easing, fiscal policy stimulus, and financial system support to revive their economic growth. Tax cuts, public spending, lower interest rates, and banking sector support helped many countries in Asia mitigate a recession or a slowdown in 2009. Even for economies that experienced contraction last year, there were signs of a turn-around during the second half, and all countries in Asia are expected to post higher positive growth in 2010. The Asian Development Outlook 2009 Update expected the average GDP growth of developing Asia to improve from 3.9% in 2009 to 6.4% this year.

Notwithstanding that achievement, Asia is now facing an even more challenging task of optimally timing its exit strategies, in order to gradually unwind its monetary easing, fiscal stimulus, and financial system support without creating undue adverse impacts on nascent economic recovery.

Tightening monetary policy too soon might result in deflation and a possible return to recession, while allowing monetary easing for too long might lead to high

inflation and asset price bubbles. On the fiscal front, a premature withdrawal of fiscal stimulus could send the economy back to a recession, while sustaining fiscal stimulus for too long will cause debt and interest rates to rise, thereby threatening long-term sustainable growth. Reducing financial sector support too early could delay the restoration of financial system stability, while prolonged support could generate a moral hazard in the market.

Meanwhile, efforts have been made to limit the risks that “systemically important” financial firms can take and to improve macro-prudential supervision and regulation. In addition to the plan to create a systemic risk regulator or a financial services oversight council, and impose more stringent capital and liquidity standards, two new initiatives were proposed in the US just last month, one is to limit the size of big banks and the other is the so-called “Volcker Rule” which proposes to restrict banks from engaging in proprietary trading in capital markets, including hedge funds and private equity funds.

Globally, the Basel Committee on Banking Supervision is currently working on its Basel III standards which will require banks to hold more equity capital and maintain more liquidity. In addition, the proposed standards aim to raise the quality, consistency and transparency of the Tier 1 capital base; introduce a framework for counter-cyclical capital buffers; and strengthen the risk coverage of banks through a higher leverage ratio and a global minimum liquidity standard for internationally active banks. The Basel III is now in the consultative stage and expected to be issued by the middle of this year.

The first two sessions of the Roundtable today and tomorrow are devoted to exchanging views and experiences on these issues, from global, regional, and national perspectives. While the financial systems in Asia have held up well in the face of the current crisis, notwithstanding adverse liquidity conditions in several markets and pressures on certain exchange rates that spilled over from the West, it would be useful to look at the OECD’s Policy Framework for Effective and Efficient Financial Regulation, including its ten key principles for financial regulation, and assess its relevance for Asia.

The third session of the Roundtable will deal with the growth rebalancing issue. The global financial crisis demonstrated that Asia has been relying too much on export demand from the US and other industrial economies, particularly for final goods. To sustain its economic growth, especially in light of the yet fragile recovery of its major trading partners, Asia will have to rebalance its growth towards greater reliance on domestic and regional demand. This can be achieved partly by creating an environment more conducive to regional financial integration. Asia has much to gain from closer integration of its financial and capital markets, which will facilitate the mobilization of its large savings to meet investment demand within the region. These will be the issues we will explore during the second half of the Roundtable.

At present, only a few economies in Asia have an open capital account, and many emerging and developing economies in Asia have yet to develop a well functioning capital market. The fact that many countries are in the early stages of capital market development means that it may be easier to incorporate regional

arrangements, such as common market standards, into their capital market master plans.

Within Asia, ASEAN and ASEAN Plus Three have made the most progress in terms of developing and integrating their capital markets, through regional initiatives such as the ASEAN Economic Community (AEC) Blueprint and the Asian Bond Markets Initiative (ABMI). The AEC Blueprint includes a target for greater capital mobility and closer integration of ASEAN capital markets by 2015. ABMI has made progress in helping develop and deepen local-currency bond markets in the ASEAN Plus 3 countries since 2003, through a number of regional initiatives to facilitate the issuance of, and demand for, local currency bonds, and improve bond market infrastructure and regulatory framework in the region. One such initiative is the Credit Guarantee and Investment Facility (CGIF) that will soon be established as a trust fund of the ADB with an initial capital of US\$700 million to support the issuance of local currency-denominated corporate bonds in East Asia.

These regional efforts have contributed to rapid growth of bond markets in East Asia. According to the ADB's Asia Bond Monitor in November 2009, emerging East Asia's local currency bond markets registered a strong annual growth of 14.8% at the end of September 2009 with total bonds outstanding at US\$4.2 trillion. This growth was even more impressive considering the 30% growth of the corporate bond market during the same period.

Within ASEAN, last year the ASEAN Finance Ministers have endorsed the ASEAN Capital Market Forum's Implementation Plan to Promote the Development of an Integrated Capital Market in ASEAN. The Plan provides for a comprehensive approach at building an integrated regional capital market, through harmonization of market standards and mutual recognition of qualification, education and experience of market professionals as well as establishment of trading and settlement infrastructure and linkages.

Going forward, capital markets will have to play a key role in supporting the growth of private domestic demand once the monetary and fiscal stimulus and financial system support are withdrawn. Greater efforts and closer coordination in developing and integrating the region's capital markets will be crucial in ensuring a sustainable economic recovery in Asia. At the same, it goes without saying that another key point for realizing such a recovery, will be for policymakers in the US and Europe to strengthen financial market regulation and supervision in a way that ensures that a global financial crisis never happens again.

I would like to conclude by saying that ADBI is pleased to continue this collaboration with the OECD to provide a regional platform for capital markets, where finance and central bank officials and experts can exchange views on the progress and development of capital markets in Asia.

Thank you.