

**ADB-NEAR Conference
Asian Economy after the Global Financial Crisis**

**20 August 2010
Tokyo, Japan**

**Welcome Remarks
by
Masahiro Kawai
Dean and CEO, ADB Institute**

Chairman Duck-Koo CHUNG of the NEAR Foundation, Ambassador Kyung-Wook HUR, distinguished guests, ladies and gentlemen, good morning.

It is my great pleasure to welcome all of you to today's conference on the *Asian Economy after the Global Financial Crisis*. We are very grateful that this conference is jointly organized by ADBI and the NEAR Foundation. Actually, this is the third joint conference by ADBI and the NEAR Foundation. Starting in 2008, this series of conferences has dealt with many important issues in Asia, including implications of the US subprime crisis, capital flows, and the global financial crisis as well as the future of the US dollar as the global reserve currency.

Even though the global financial crisis did not originate in Asia, Asia was heavily affected by the crisis through various transmission channels, primarily the trade channel. In some countries, especially Korea and Indonesia, shortages of international liquidity also became a problem. In general, Asian exports plunged, and overall growth collapsed sharply. In addition, many Asian countries suffered from crashes in equity markets and exchange rate depreciation. However, as a result of strong economic fundamentals and substantial steps to ease monetary and fiscal policies, Asian countries generally have shown strong economic recovery over the past year.

Despite this success, Asian economies need to address the longer-term implications of the crisis. First, growth in the US and Europe, which had been the major markets for Asia's exports, is likely to remain sluggish for some time to come. Second, the export-led growth model of many Asian economies, which had been so successful for several decades, led to large current account surpluses and accumulation of massive amounts of foreign exchange reserves because it was not accompanied by high levels of imports.

Third, the Asian growth model was associated with increased income inequality, high levels of consumption of energy and other resources, and environmental degradation. As a result, Asian economies face the challenge of achieving more balanced and sustainable growth, i.e., growth that is rebalanced away from net exports to the US and Europe and toward domestic and regional demand, and is more socially inclusive, less resource intensive, and environmentally friendly.

Asian policymakers need to pursue a broad range of structural reforms to encourage required adjustments both on the supply side and the demand side of the economy to achieve such sustainable growth. These reforms include: elimination of distortions in factor and resource markets to make the price signal work; promotion of services sectors and green growth to expand new economic opportunities; improvement of social sector protection to provide security to households; deepening of financial markets to allow individuals and small- and medium-sized enterprises access to financial services; and creation of a bigger, integrated market for goods, services, investment and finance. Asia needs to establish macroeconomic policy frameworks at the national level to contribute to such sustainability, as well as a regional framework for macroeconomic policy and financial cooperation to jointly achieve balanced and sustainable growth.

First, at the national level, policymakers need to put in place a macroeconomic policy framework to promote macroeconomic and financial stability. Monetary and financial supervisory authorities must work together to maintain stable economic growth and both price stability and financial stability, particularly by reducing systemic financial risks such as asset price bubbles. Capital controls should not be dismissed as irrelevant from the list of policy tools. Fiscal authorities need to put in place more automatic stabilizers for spending in order to reduce the magnitude of business cycles. Each economy must exit from the current expansionary monetary and fiscal stance in a prudent way based on country specific conditions.

Second, we need to examine the role that regional macroeconomic policy and financial cooperation can play to achieve more sustainable growth in Asia. There was little policy coordination in the region during the crisis, which needs to be corrected. Asian policymakers should conduct more intensive policy dialogue and avoid beggar-thy-neighbor policies such as unilateral attempts at competitive currency devaluation to try to

boost exports. They should also try to prevent significant currency misalignments within the region. Macroeconomic policy dialogue on exit strategies could help reduce intraregional exchange rate volatility. Furthermore, facing the risk of massive and persistent capital inflows to the region, Asian authorities need to be prepared to respond jointly through collective currency appreciation. Coordinated macroeconomic policy will be indispensable to maintain regional macroeconomic and financial stability.

Third, we need to re-examine the role of regional mechanism for providing international liquidity. During the recent crisis, most countries relied on their own foreign exchange reserves to prevent sharp currency depreciation. However, in Korea, this proved insufficient to thwart capital account pressures, and the authorities were forced to request a bilateral currency swap arrangement with the US Federal Reserve. Unfortunately, the existing regional financial liquidity support facility, the Chiang Mai Initiative (CMI), proved ineffective during the crisis, as it was never activated for US dollar liquidity support.

Enhancing the CMI could more effectively address problems of US dollar liquidity shortage and potential currency instability. The recent multilateralization of the CMI, with the total size of \$120 billion, is a welcome development, and the size of the fund could be further increased. In addition, the agreement by ASEAN+3 finance ministers to establish an ASEAN+3 Macroeconomic Research Office is a positive step. Once regional economic surveillance becomes effective, the IMF-link of the Chiang Mai Initiative Multilateralization (CMIM) could be reduced substantially, thereby creating greater incentives for many economies in the region to actually use the CMIM.

I believe that all of these important issues of macroeconomic policy and foreign exchange rate management will be thoroughly discussed today. Hopefully, the results of these discussions can help us arrive at a consensus on needed macroeconomic and exchange rate policy coordination, liquidity support mechanisms, and financial market deepening and integration. I hope that we can articulate what type of regional financial architecture should be created in order to support the development of a more balanced and sustainable economy in post-crisis Asia.

I thank you for your kind attention.