

## **Burhanuddin Abdullah: Globalization, financial stability and regional cooperation**

Keynote address by Mr Burhanuddin Abdullah, Governor of Bank Indonesia, at the 33rd Asean Banking Council Meeting, Bali, 10 October 2003.

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*Mr. Secretary General, Mr. Chairman, distinguished officers and members of the ASEAN Banking Council, honored guests, ladies and gentlemen,*

*Good morning and Assalamu'alaikum wr.wb*

It is indeed a great pleasure for me to welcome all of you to this beautiful island of Bali and to open this Meeting today. It is also a most gratifying experience to speak before a large gathering of distinguished representatives of Bankers Association from the 10 ASEAN nations. Your presence here is an opportunity to further enhance cooperation among bankers to promote regional growth in a new global environment.

As we all may aware, globalization is a reality and no country in the world is immune to its impact. It has opened up tremendous opportunities, but it has also posed a wide range of challenges and risks. We must therefore strive to maximize the benefits of globalization while endeavouring to minimize the costs. Our experiences in the past crisis has shown that even the most dynamic economies are vulnerable. In spite of the judicious macroeconomic policies that we adopted and the structural adjustments that we carried out, the development gains that we earned over decades could crumble in the span of a few weeks.

The severe crisis proved that our banking system had some structural weaknesses. Those weaknesses had led most of the ASEAN countries banking system into deep trouble, reflecting in the mounting amount of non performing loan, serious liquidity problems, huge amount of losses and eventually caused many banks to became insolvent.

In the face of these realities, the ASEAN banking industry has rightly responded to restore the solvency and the stability of the banking system, through banking restructuring program, and improvement of banking supervisory and regulatory capability.

*Ladies and Gentlemen,*

This crisis may be abating, but greater challenges still lie ahead. The challenges that we are going to faced, first is the heightened competition among banks that requires bankers to make the basic strategic decision. As financial modernization going forward, bankers will be forced to decide what kind of institution they want to be. Bankers need to figure out where they want to be in terms of a whole spectrum of activities whether they want to be a local bank, regional, or global bank.

The second is a challenge of effective risk mitigation and risk intermediation. We have to ask how do we keep our risk management skills honed enough to deal with the world of high tech and sophisticated finance. I believe that the nature of the risk is changing. It's changing because the products and services are also changing in a more sophisticated way; that means the ability to recognize risk, measure risk, manage risk, offset risk, is utmost important for financial institution.

The third challenge, obviously, is the process of financial deepening which affected market structures, complicating the task of regulatory oversight in several ways. As financial instrument become more complex; the boundaries between different types of financial market activity (lending, trading, insuring) become blurred; more claims become securitized and were exchanged in markets as traded instruments; and much financial activity became international in nature, blurring boundaries of responsibility among authorities.

Now, the question is, what are the implications for bankers and regulators such as central banks?

*Ladies and Gentlemen,*

The first implication is that we have to acquire, improved, and further enhance our skills and capabilities. We need to improve our risk management skill considering that the nature of risk is changing very fast with new technology and products.

The other is the requirement for us to conduct good corporate governance in the business. The need for transparency and corporate governance in any business including banking is very critical.

Banking supervision cannot function well if sound corporate governance is not in place. Supervisory experience underscores the necessity of having the appropriate levels of accountability and checks and balances within each bank. Put plainly, sound corporate governance makes the work of supervisors infinitely easier. Sound corporate governance can contribute to a collaborative working relationship between bank management and bank supervisors.

Consequently, central banks or regulator showed, by necessities, to impose market discipline and strengthen risk-based supervision as implied in the Basle Core Principles.

*Ladies and Gentlemen,*

In the face of these challenges and implication, ASEAN countries should make every effort to take advantage of the globalization and liberalization of investment and trade, knowing that it is the order of our global economy today. We should therefore actively involved in the many multilateral cooperation and/or institution.

To strengthen economic cooperation among ASEAN countries, the leaders of ASEAN has just launched a new series of economies policies and initiatives as mentioned in Bali Concord II during their ninth ASEAN Summit, three days ago. One of the concept in Bali Concord II is the establishment of ASEAN Economic Community. That community envision "a *stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment, labour and a freer flow of capital.*" The goal is to create a single market and production base by 2020; emulating other regional trade arrangements, particularly of the European Economic Community in the 1960s-1970s. With a population of some 500 million people and a combined GDP of about equal to China's, ASEAN Economic Community is clearly not an economic lightweight.

ASEAN Economic Community should continue to cooperate to make the region more integrated, dynamic, and ultimately prosperous. We should also continue to cooperate in the area of financial sector, among other; to develop the Asian Bond Market that could facilitates Asian savings to be smoothly reinvested in the region, encourage alternative longer term financing through capital market, and formulate the task for the regulatory oversight to deal with the complexities of financial instrument between banks and non banks financial institution.

Our ultimate objective is, of course, to establish the financial stability in the region. The role of central banks has to be in conjunction with that of other guardians of financial stability. Complexity, globalisation, and institutional interdependence forcefully argue for close cooperation between central banks, monetary authorities and other standard setters. It is within this sphere that ASEAN swap arrangement could be further strengthened for the benefit of the region.

In line with the objective to maintain financial stability, there is an even greater need to promote our common interest and exchange views on regional issues. A major concern to most ASEAN financial sector nowadays is to revive the intermediation function of banking system.

Alternatives route toward the recovery of intermediary function should be explored, for example; Indonesia has been trying to improve intermediary function through among others by promoting credit channelling to the micro or small and medium enterprises. There has been quite some success in this area and we are very much willing to share with you the achievement so far.

Another concern for ASEAN financial sector is the implementation of Basle Accord II which has raised question of the readiness of the banking system. We should therefore continue strengthening collaboration between central banks, monetary authorities, bankers, and private sector. In this regard, central banks have to provide the infrastructure where financial markets rely on, so that the best practices can be adapted. We also need to harmonized/standardized the financial institution structure, skill, and regulation in the region to face the Accord.

*Ladies and Gentlemen,*

On bilateral level, cooperation among bankers in the region is also essential in preparing the system for a more sophisticated and complex banking practice in the globalized era so that the region could still achieving financial stability. This is the challenge for us and also for ASEAN Bankers Association. The ASEAN Bankers Association has played an important role in facilitating the exchange of information and expertise on banking among the staff of the banks in Southeast Asia. There is room

for greater cooperation among banks, such as exchange, attachment, and apprenticeship among the staff of the banks in the region, as well as cooperation with other regional groupings and international financial institutions.

ASEAN Bankers Association should explore ways to create greater synergies through partnership and cooperation.

I believe that the ASEAN Bankers Association will deliberate at length a strategic review of cooperation in Finance, Investment, and Trade; Education; and Inter Regional relation on this meeting. This is an opportunity for the Council to re-examine the relevance of ASEAN Bankers Association roles, and explore ways in which it can better serve its members. ASEAN Bankers Association has to reposition itself to meet the challenges of the new globalized economy.

Finally, may I now take a great pleasure in declaring the Meeting open and wishing all of you success in your deliberations.

Thank you.