

## **Toshihiko Fukui: The dynamism of Asian economies and central bank cooperation in the region**

Opening remarks by Mr Toshihiko Fukui, Governor of the Bank of Japan, at the International Symposium "Ten Years After the Currency Crisis: Future Challenges for the Asian Economies and Financial Markets", hosted by the Center for Monetary Cooperation in Asia (CeMCoA), Bank of Japan, Tokyo, 22 January 2007.

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### **1. Introduction**

Good morning, ladies and gentlemen. Welcome to the first international symposium hosted by the Center for Monetary Cooperation in Asia, or CeMCoA for short. CeMCoA was established within the International Department of the Bank of Japan about a year ago with a view to promoting international cooperation among Asian central banks.

Today, I am very pleased to welcome my close friends from the Asian central banking circle and the International Monetary Fund. Governor Zeti from Malaysia, Governor Tarisa from Thailand, Governor Abdullah from Indonesia, Governor Tetangco from the Philippines, and Managing Director Rodrigo de Rato of the IMF, I would like to thank all of them for joining us as guest speakers. I would also like to extend my heartfelt gratitude to all the distinguished audience gathering here.

This morning, we would like to discuss the dynamism of Asian economies and the regional cooperation among central banks as well as the IMF. Looking at the Asian economies, China and India often attract attention, but at the same time no one can afford to overlook the importance of ASEAN countries. Japanese industries and financial institutions have a long history of close relationship with these economies, and will continue to do so for mutual benefits. Interdependence in Asia has come a long way despite the Asian currency crisis a decade ago. As demonstrated by the significant recovery and expansion in the last decade, the Asian economies are expected to make great leaps forward in the next decade. Today's guest speakers are the ones who will support these leaps. I believe this is a very good opportunity to discuss a forward-looking view of the Asian countries.

### **2. Economic dynamism in Asia**

As you may recall, the Asian currency crisis, which started with the sharp decline of the Thai baht in July 1997, spread to neighboring countries in a short period of time. Some ASEAN economies at that time suffered disruptions in their foreign exchange and financial markets, the massive outflow of capital resulted in the drying up of foreign reserves, the deterioration of banking systems and negative economic growth. Ten years later, everything is different: the foreign exchange and financial markets are much more stable and the currencies sometimes face upward rather than downward pressure; foreign direct investment and other capital inflow continues to grow with the accumulation of foreign reserves; the banking system has been strengthened through restructuring; and the economies have grown at a steady and sustainable pace of 5% on average since 2000. While there were indescribable difficulties to overcome the adverse effects of the crisis, the present performance clearly demonstrates the success of policy efforts and the underlying dynamism of the economies. I hope the speeches by the Governors will enlighten us about the changes in economies and dynamism after the crisis.

### **3. Regional cooperation**

Turning to policy coordination, the crisis became the starting point for various initiatives in the region. Exposed to the weakness in the international financial architecture, the ministries of finance and central banks became aware of the importance of regional cooperation and began to address the source of weakness. The Chiang Mai Initiative, as a complement to the IMF facilities, was agreed upon among ASEAN + 3 to build a framework of emergency liquidity support through a network of bilateral foreign exchange swap arrangements.

Based on the analysis of the crisis, efforts have been made to reduce over-reliance on the banking sector for financial intermediation. The Asian Bond Markets Initiatives (ABMI) is another regional cooperation by ASEAN + 3 to foster local capital markets. Sharing the same objective with the ABMI,

the Executives' Meetings of East Asia and Pacific Central Banks, or EMEAP, consisting of eleven central banks and monetary authorities in the region, started the Asian Bond Fund project. By utilizing some foreign reserves of member central banks collectively, the EMEAP launched two investment funds; one for investing in US dollar-denominated public bonds issued by the member countries, and the other for investing in local currency-denominated public bonds, to help not only to provide a convenient and low-cost instrument for market participants but also to identify and remove impediments to the respective local markets.

#### **4. Future challenges for the Asian economies and financial markets**

In line with the good performance of regional economies and the progress in policy coordination among central banks and monetary authorities, economic integration in the region is gradually taking root. It is reported that intra-regional trade in East Asia has recently reached around half of the total, which is comparable to that of NAFTA and slightly less than that of the EU. Bilateral and regional free trade agreements are spreading throughout Asia. In addition, ASEAN is accelerating the process for building the ASEAN Economic Community (AEC) by 2015. It will be interesting to see how the present banking and other financial services change when a single market for goods and services is formulated in ASEAN. I hope the Governors can provide us with insights into developments of the AEC.

With the globalization of the world's financial markets, large capital flows will continue to have a strong impact on open economies. This holds true for most of the Asian economies including the ASEAN. It is, and will surely be, the most difficult task for any monetary authorities to maintain the stability of foreign exchange rates, the free flow of capital, and the independence of monetary policy simultaneously. The answer to this proposition probably lies in the resilience of markets. In order to increase the ability to absorb external shocks from massive capital flows, the priority seems to strengthen the function of foreign exchange and financial markets in the region as a whole. In this regard, frequent exchange of information, deep analysis and concerted efforts by the EMEAP central banks will contribute to addressing risks and vulnerabilities in the markets. Such collaborative actions may cover the roles of the IMF, which commits itself to extensive reform to meet new challenges under the leadership of Rodrigo.

#### **Conclusion**

It is often said that Asia is highly diverse in culture, social framework and the stage of economic development. Since the Asian economies are in many respects very different from the European, we will probably follow our own process for economic integration. In that process, the better functioning of markets through regional cooperation will help provide a better business environment for industries and financial institutions, and lead to more efficient resource allocation. The more-than-ten-year history of EMEAP itself proves that cooperation based on mutual understanding and respect is possible in any circumstances.

I am sure the guest speakers have various opinions on today's topics, and we will be able to appreciate their visions through our stimulating discussions. I would be delighted if this symposium helps you build insights into the dynamism of Asian economies and central bank cooperation in the region for the decade to come.

Thank you.