

Zeti Akhtar Aziz: Vision of Asia

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Official Monetary and Financial Institutions Forum (OMFIF) – “Vision of Asia Award Acceptance Speech”, London, 30 June 2010.

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It is my great honour to be here today to receive this Vision of Asia Award from the Official Monetary and Financial Institutions Forum (OMFIF). I would like to thank Lord Desai, for his generous introduction and the advisory board of OMFIF for this recognition. As a policy maker from an emerging economy in Asia – for almost three decades – it has been both exhilarating and most rewarding. While being challenged to the limit, in particular, during the Asian financial crisis, the Asian economies have now emerged stronger and more resilient.

This decade has seen a dramatic change in the nature of the globalisation process. As this process intensifies, Asian economies have demonstrated their flexibility to adjust and respond to the opportunities and challenges that have emerged. The initial wave of globalisation was in the form of trade. This was followed by the globalisation of corporations and more recently by the globalisation of financial flows. The recent global financial and economic crisis has called for the globalisation of policy given the limits for policy at the national level and the need to address cross border developments that have implications on the domestic financial system and hence the domestic economy.

The global economy and the international financial system have entered a new era. A fundamental transformation of the global landscape is taking place. Arising from the growing disparity in growth performance between the developed and emerging world, increasingly the economic power in the global economy is becoming more dispersed. The Organisation for Economic Cooperation and Development (OECD) estimates the emerging economies’ share of global economic output will exceed that of the developed world by 2011. By 2030, the emerging economies are expected to account for 60% of total world output.

The benefits of globalisation are thus becoming more balanced. In 2000, the emerging economies accounted for 80% of the world population but only generated 40% of global income. By 2030, it is estimated that 85% of the world population from the emerging economies will generate 60% of the income. This is reinforced by increased trade between emerging economies. While world trade has quadrupled between 1990 to 2008, trade flows between emerging economies increased ten-fold.

Asia is very much part of this global shift that is taking place. Following a decade of significant economic and financial transformation, Asia has emerged as a major growth centre in the global economy. Asia now accounts for one third of world output and 28% of world trade. This progress and development has created employment and improved living conditions, lifting millions out of poverty. While Asia is one of the most diverse regions in the global economy, it has been able to take advantage of the complementarities in the region to generate significant expansion in intra-regional trade, intra-regional investment activities and increased intra-regional financial flows.

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This award speaks to the growing importance of Asia within the world economy. Allow me to touch on three major trends in Asia that are likely to influence Asia’s role in the world as we advance into the future. First, the role of the growing cumulative domestic demand in Asia for the regional and global output. Second, the role of Asia in the more efficient intermediation of funds mobilised in Asia arising from the more pronounced regional financial integration.

Third, is the policy strategies being adopted by the region to address challenges and the model for the management for international relations.

The economic transformation of Asia in this decade has resulted in Asia becoming an important source of cumulative demand in the global economy. Rising incomes, low unemployment, a young demographic structure that has higher propensity to consume, relatively low level of household debt and policies to encourage consumption have spurred consumption demand. Other measures being initiated include putting in place social safety nets in the form of schemes and programmes for education, healthcare, retirement and unemployment benefits. This has not only resulted in significant expansion of the retail trade sector in the region but Asia is increasingly becoming an important consumer in the global economy.

Private investment activity has also resumed following a period of excess capacity due to overinvestment prior to the Asian financial crisis. There are also plans for massive investment in infrastructure development in the region. While Asia has the internal capacity from its high savings to finance these investments, the resulting higher import demand that these investments will generate will contribute to the further unwinding of the global imbalances. This stronger domestic consumption and investment demand in Asia is also being supported by the strengthened and more developed financial systems. The relatively low level of leverage of the corporate sector and the continued access to financing support this trend.

While regional economic integration has always been part of the Asian economic landscape, regional financial integration has been a more recent phenomenon. While regional financial integration will facilitate the already strong trade and investment linkages in the region, a more important aspect of financial integration for Asia is that it will facilitate a more efficient intermediation of funds within Asia. Asia's more developed financial markets and continued initiatives to liberalise the financial sector will also strengthen inter-linkages with both the traditional financial markets and with new financial centres in other emerging economies. Going forward, products from Asian financial markets can be expected to increasingly assume greater importance as an asset class. It will thus increase the potential for the diversification of risks and contribute towards stability of the international financial system. It will also expand the options for investors and borrowers and thus, contribute to more efficient allocation of financial resources across borders. In addition, the development of the capital markets in the Asia region will have the important role in channelling part of the sizable savings of Asia back into productive investments in the region. With greater liberalisation of the financial sector and the capital account, and the increased linkages of the national payments systems in Asia, and the greater presence of regional institutions in the individual domestic financial systems, the trend for increased financial flow within the region will continue. Given Asia's favourable economic prospects and more developed financial market, Asia is already attracting volatile capital flows.

The route that Asia is taking to forge greater financial integration will however be different from that of Europe. Unlike in the European Union, Asia has not ventured to have centralised institutions to coordinate financial integration. Rather, it has leveraged on existing regional groupings and existing networks to forge greater collaboration in areas of common interest. Secondly, a common currency is not on Asia's medium term agenda. To minimise exchange rate risks and facilitate intra-regional trade and investment, countries have ventured into arrangements to use domestic currencies for trade settlements.

Let me touch on policy and strategies adopted in Asia. Asia has tended to not adhere to rigid ideologies but rather focus on institutional building and financial market development, strengthening of the payment systems and the regulatory and supervisory framework. Indeed, many of the reforms that are now being widely debated to address the weaknesses observed in the global financial system during this crisis have already been implemented in Asia. This includes the adoption of sound liquidity frameworks, substantially strengthened

governance and risk management practices, comprehensive financial safety nets, and the implementation of counter-cyclical measures such as loan-to-value ratios. While a decade of financial reforms have paid off, increased regional efforts on surveillance, crisis management, liquidity support arrangement, and financial supervision and development of regional financial markets continue to be the focus of attention going forward.

Conclusion

Let me conclude my remarks. The global economy is experiencing a significant and fundamental shift. Asia is very much at the centre of this shift. As Asia becomes an increasing source of demand and as a more financially integrated Asia becomes more interlinked with the rest of the world and as Asia further strengthens its resilience, the stage is set for Asia to assume a more prominent role in the global economy.

In the endeavour to achieve the shared goals of balanced global growth and the common interest of global financial stability, Asia holds the potential and the promise of a platform for meaningful collaborations towards attaining sustainable global solutions and progress in this more inter-connected world.