

Zeti Akhtar Aziz: Why Asia? Asia's prospects and how emerging markets shall shape the region's future

Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Management Association of the Philippines (MAP) Luncheon Seminar: "Why Asia? Asia's prospects and how emerging markets shall shape the region's future", Manila, 2 May 2012.

* * *

It is my great pleasure to be here in Manila to give this luncheon address. Let me thank the Management Association of the Philippines for the invitation to speak here today on Asia's future prospects; why Asia and how will emerging Asia shape the region.

Opportunities in Asia are now boundless. Key in generating these opportunities are the economic flexibility of the region, the diverse nature of the region that has generated the potential to leverage on regional complementarities, and the demographic advantages of the region. These opportunities are also being enhanced by the significant payoffs gained from a decade of reforms, and the intensification of regional economic and financial integration that is now taking place and resulting in a more connected and cohesive region. Despite being at different stages of development and operating in different economic systems, the benefits are also increasingly being more widely shared. Finally, the region has also benefited immensely from the resilience built, and more recently, from having the policy flexibility to minimise to the effects of the recent global financial crisis.

Let me elaborate on these prevailing trends that are shaping emerging Asia's future. Asia's growth prospect is very much underpinned by the transformative momentum that has, for a number of decades, brought emerging Asia to its current growth trajectory. The economic flexibility of emerging Asia has enabled most of the economies in the region to adjust to the changing conditions and to shift resources to new areas of comparative advantage. Emerging Asia has demonstrated that it has not been weighed down by structural rigidities and impediments. Capital and labour mobility has been strengthened by the economic and financial reforms that have resulted in the shift towards greater market orientation and liberalisation. Changing economic structures and transformation within specific sectors, including the participation in cross border production chains, have been gaining significance. Emerging Asia has also been able to leverage on technology to push beyond prevailing frontiers. Firms in emerging Asia are also increasingly innovating and allocating resources to research and development, and becoming leading players in their various respective industries.

An equally important economic shift that is taking place in Asia is the rebalancing of the economies from being export-dependent to domestic demand becoming an important source of growth. Rising incomes, stable labour market conditions and resilient financial systems have supported private consumption and investment activity. Asia is, therefore, transitioning from being just global producers to being global consumers. Asia also has the policy space to support and strengthen domestic demand. Asia is becoming a huge cumulative market in the global economy.

Reinforcing the economic flexibility of Asia is the diversity of the region. Asia is one of the most diverse regions in the world in terms of size, stage of development, resources, economic structure, degree of openness and market orientation. In harnessing each other's comparative advantage and leveraging on the regional complementarities, for Asia as a region, the whole has become significantly greater than the sum of its individual economies. Over the recent decade, this has generated a significant expansion in intra-regional trade, investment and financial flows. This trend is expected to intensify significantly going forward. The diversity of emerging Asia also presents immense opportunities in terms of the growing markets across the entire spectrum of products and services.

The third key trend that is shaping the future of the region is its demographic advantages. Asia is by far the most populous region of the world, accounting for 60 per cent of the world's population. A vast, growing and young middle class population, with increasing affluence, will be a key defining characteristic, and an underlying growth driver of Asia. By 2030, it is projected that the current 500 million Asian middle class will grow by more than six-fold, to be more than 3 billion. This will have significant implications on global consumption and trade patterns, and on urbanisation and infrastructure development. The scale is immense. The Asian Development Bank has also projected that over this decade, Asia will require an investment of over 8 trillion US dollars in infrastructure development. It has been projected that every year, 44 million Asians are expected to be added to the urban population.

The opportunities generated by these trends are being further enhanced by greater regional economic and financial integration. The intensification in regional integration will not only contribute towards accelerating Asia's growth momentum, but also further strengthen the resilience and stability of the region. The increased intra-regional trade and investment linkages within Asia over this recent decade have strengthened Asia's economic resilience to external shocks. Indeed, the changing patterns of trade have allowed Asia to better withstand and emerge with an earlier recovery from this recent global financial crisis. It has also enabled Asia to be less susceptible to the ongoing deleveraging in the advanced economies. The more recent efforts have focused on strengthening regional financial integration - not only to sustain regional financial stability, but also to promote more efficient intermediation of funds in Asia to support the region's growth prospects. It will allow for the effective rechannelling of Asia's sizeable surplus funds towards productive investments in the region. Going forward, the intensification of regional integration will mutually reinforce the strengthening of domestic demand in Asia, thereby enhancing the region's economic growth prospects.

While regional economic and financial integration will intensify going forward, driven by the opportunities it presents and the conscious policies for a more cohesive region, Asia will continue to be integrated with the global economy and the international financial system. The external environment for Asia has, however, changed significantly. The protracted weakness in global demand can be expected to persist over the medium term, given the structural nature of the problems confronting several of the major economies. Any setback in the recovery process, or any severe economic contraction in any of these economies, would affect Asia through the trade channel.

In addition, the Asian region is also affected by the significant and continuous global policy spillovers. This includes the effects of the implementation by several of the major economies, the fiscal austerity measures, the unprecedented quantitative easing, the unintended consequences of the regulatory reform, the effects from deleveraging arising from the efforts by both the public and financial sectors to reduce their levels of indebtedness, and the effects of resolution of stressed financial institutions. These global policy spillovers are affecting international trade and financial flows.

How has Asia managed these fundamental forces affecting our region? It is the wide ranging actions that have been taken by Asia during the decades before that has well positioned Asia to absorb and manage the effects of these global developments. The strengthening of domestic demand, building resilient financial systems, and facilitating regional financial and economic integration that has been reinforced by growth supporting policies, have contributed to particularly mitigate the effects of slower trade on the regional economies.

Similarly, the development of the domestic financial system particularly the domestic financial markets, the strengthening of the surveillance system and the legal, regulatory and supervisory frameworks, have increased the capacity and capability to manage consequences on access to cross border financing, and from quantitative easing, deleveraging activities, and financial sector resolution in the major economies. In addition,

this has been reinforced by the building of buffers during the good times. Financial intermediaries remain well capitalised with strong buffers, while the international reserves remain sufficient to deal with surges and reversals in capital flows.

A more recent development in this decade is greater regional collaboration and cooperation. Asia is well ahead in the areas of surveillance arrangements, financial safety nets, and crisis management. These frameworks and arrangements have been built up during the good times. Information sharing and the establishment of regional arrangements and platforms, including the building of regional financial infrastructures and markets, are not only to facilitate the efficient intermediation of financial resources, but also to safeguard financial stability in the region. This trend paves the way for coordinated policy actions to manage and mitigate the risks and vulnerabilities to the region.

Conclusion

The global economic and financial environment remains highly dynamic and uncertain. While emerging Asia is unmistakably contributing to reshaping the configuration of the global economy and the international financial system, the fundamental underlying factors driving this global transformation needs to be continually reinforced. It will require our own continuous economic and financial transformation. Most important will be to ensure the continued economic flexibility of the region to adjust to the rapidly changing global and regional conditions, the strengthening of the connectivity among the emerging economies in general and within the Asian region, and to boost further the resilience of the region to withstand any destabilising developments.

The ASEAN economies have a distinct advantage. In terms of their economic flexibility, their size and stage of development provides the prospects of having greater agility to adjust to the rapidly changing conditions. In terms of the connectivity, the ASEAN region is a highly cohesive region. Historically, it goes a long way back to the 1950s. Cooperation and collaboration are evident in most areas of economic activity and in the financial sector, in both the public and private sectors. Policy-makers participate in several regional agreements and arrangements. The large economies have the opportunity to leverage on the potential synergies from a greater interface with the ASEAN grouping.

To realise the Asian potential, continuing the transformative momentum and enhancing the cohesiveness of the region would not be complete without ensuring that the benefits of development is widely shared. Experience has shown, even in the advanced economies, that when inequality is high and significant, instability follows. Greater inclusiveness within economies and across the region is important to ensure the sustainability of our growth and development. An important part of this transformative momentum and greater inclusion will be the transformation involving education, health care and the social security system. Addressing these challenges will ensure Asia has a high potential to remain on its growth and development trajectory.

Thank you.