

Burhanuddin Abdullah: Reflections on the changes in the region a decade after the Asian crisis

Speech by Dr Burhanuddin Abdullah, Governor of Bank Indonesia, at the International Symposium "Ten Years After the Asian 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.

* * *

Honorable Governor of Bank of Japan, Mr. Toshihiko Fukui, Honorable Managing Director of the IMF, Mr. Rodrigo de Rato, Fellow Governors, Ladies and Gentlemen, Good morning.

First I wish to join others to express our appreciation to thank the Bank of Japan for organizing this important event. It is indeed an opportune time to reflect on the recent developments and progress that we have achieved following the crisis. I believe that through a frank and candid discussion we can share from each others' experience during this symposium in the spirit of cooperation especially on how we have fared through the turbulence period of unprecedented economic crisis of the late nineties. We expect that we can capitalize on the recent progress and cope with the future challenges for the benefit of our economies.

In this session, allow me to briefly express my reflection on the changes in the region a decade after the Asian crisis to identify factors that would influence the economic dynamism and prospects of East Asia in general and ASEAN in particular.

Fellow Governors,

In my observation, I notice that a number of remarkable changes have occurred in the region.

First is the heightened regional cooperation with the objective of establishing a regional *self-help*. Unlike most of their counterparts in other parts of the world, the latest financial crisis, among other factors, provides strong impetus for the monetary and financial cooperation in East Asia. The initiative to create a set of Bilateral Swap Arrangement, to develop Asian bond markets, and to conduct regional surveillance are our collective means to maintaining greater stability in the region, particularly in the face of highly volatile flows. I surely hope that this kind of cooperation will continue and be widened in the future so as to positively affect the economic dynamism in East Asia.

Second, in the aftermath of the Asian crisis, countries in East Asia have become more conscious in protecting their own national interests and of strengthening their sense of security amidst greater global economic uncertainties. This is shown by the fact that countries in East Asia have accumulated the bulk of the world's foreign-exchange reserves. In the past year China added more than \$250 billion to its stash, breaking the USD1 trillion record level. By November last year, ten East-Asian countries plus India have amassed some USD3 trillion of foreign-exchange reserve. Such a huge accumulation of international reserves certainly entails opportunity cost and exchange rate risk especially amid the looming global imbalances. However, the build-up of these reserves in a way also provides cushion against unanticipated reversal of capital flows given the openness of the foreign exchange regime and financial market the integration. In connection to this, more and more countries have settled their obligations to the Fund. Indonesia, one of the crisis-hit-countries, closed the final chapter of the Asian crisis following the last prepayment of its obligation in October last year. Such a prepayment reflects the strength of economic recovery and the balance of payments positions of the crisis hit countries, which in a way provide an evidence of the Fund's success in Asia. Yet it may also suggest that countries tend to prefer executing their own self-formulated programs when conducting reforms. In addition, Indonesia's recent experience with the Fund during the crisis suggests that turning back to the Fund in case of another crisis will be politically much more difficult than in the past.

Third, while Asian economies have fully recovered from crisis, investments as percentage of GDP have been well below the pre-crisis level. Other non-crisis Asian economies except China also exhibited a slowdown in the growth of their investments. After showing a slight recovery in 2004, the ratios moderated in 2005. The slump in investment in Asia mainly reflected a sharp fall in private investment. Many economists shared the view that the low level of investment cannot be explained by changes in fundamentals. With the exception of China, aggregate saving has been stable over more than 10 years. Among key factors responsible for the slump include investor's perceptions that the

investment environment is riskier. I would appreciate it if fellow Governors would share their experience on this issue.

Finally, many emerging countries in Asia were forced to abandon their traditional dollar-peg system and to allow their exchange rates to float in the summer of 1997 amidst intense currency attacks by speculators. After a period of sharp depreciation accompanied by high volatility, exchange rates in these countries bottomed out against the US dollar in the autumn of 1998, thanks to a return of confidence in the economic prospects of these countries. However, simply turning to flexible exchange rate regime and more liberal capital account policies do not solve all the exchange rate problems. Despite the sound policies in place, we frequently witness sharp volatility which is due to speculative capital flows and not justified by its fundamentals. At the same time we have progressed quite liberally in terms of our capital and current account policies. The adoption of these policies was endorsed by multilateral agencies, including the IMF, during the height of the Asian crisis. It is therefore my hope that all of us in this symposium come up with a set of viable policy options to address this issue of speculative flows in Asia. In particular, I would appreciate views from the IMF.

Fellow Governors,

On that final note I would like to end my speech. Those developments in the aftermath of the crisis that I have mentioned will certainly influence the economic dynamism and prospects of East Asia in general and ASEAN in particular. I am looking forward to fruitful discussions in this symposium. Going forward, it is my hope that we can engage in greater policy cooperation and coordination in East Asia.