

Zeti Akhtar Aziz: Beyond the global crisis – implications for Asia's future

Welcoming remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the ADB-BNM-EC Joint Conference: "Beyond the Global Crisis: A New Asian Growth Model?", Kuala Lumpur, 19 October 2009.

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Bank Negara Malaysia is pleased to co-organise this conference together with the European Commission and the Asian Development Bank to discuss "beyond the global crisis and its implications for the future of Asia". It is my honour and great pleasure to welcome you to this conference.

This current global economic and financial crisis presents us with a time to reflect on strategies that will promote sustainable long-term solutions in a future where the economic and financial environment is going to be fundamentally different. Although the global economy has since begun to stabilize with signs of recovery, and indeed while an apocalypse has been averted, the road to a full global economic recovery will likely be long and arduous. The re-thinking by the global community on the wide ranging issues that are now confronting the world is taking place on several fronts.

In the aftermath of the crisis, the configuration of the world economy will be transformed as changes in the pattern of global demand take place, as demands for greater efficiency and lower costs occur, as actions are taken for a reduced role of government in the economy, as new regulatory regimes are being introduced, and as efforts are being undertaken to enhance our capacity to manage systemic financial crisis. Many of these changes will involve cross border arrangements and collaboration. We are all stakeholders with interest in what the post-recovery world will look like. Indeed, the issue of new economic models in the context of these developments is relevant not just to Asia but also for other parts of the world. We have seen how within the short period of less than a decade, the rapid escalation of debt-driven consumption in North America led to chronic financial and economic imbalances that has resulted in a significant economic dislocation on a global scale. Several lessons can be drawn from these developments. The Asian economic model for the future needs to be redefined if the economic progress is to be sustained, taking into account the global changes that are taking place.

Asia's success which has been described as a "miracle" has been well documented. It has been acknowledged that "the miracle" is not the result of any one single factor but rather, a confluence of factors. Structural change and pro-growth policies were coalesced synergistically with hard work ethics. In many ways, Asia has maximised its comparative advantage with international trade as a major source of growth over several decades. Economies were transformed from being driven by the traditional commodity based sector, to one that was driven by the manufacturing sector that produced goods for the increasingly affluent domestic markets and for the export market.

This strategy and economic transformation in Asia has also been facilitated by the steady inflow of foreign direct investment into the region. Given the region's competitively-priced factors of production, combined with pro-business economic policies, global producers relocated their production bases to Asia. In terms of robustness, this model has survived several global slowdowns. Even in the face of the 1997-1998 Asian Financial Crisis, the affected countries recovered rapidly and resumed strong growth. The fundamental strength of the Asian economies has also been its economic flexibility to adjust to changing conditions. The challenge before us now is whether Asia, going forward, will rise to the new challenges that is being presented by the rapidly changing global environment in the aftermath of the current global economic and financial crisis.

While Asian financial systems have shown a high degree of resilience during this global financial crisis, most Asian economies have been markedly affected by the economic spillover effects of the crisis. By the second half of 2008, what was a “localised” financial crisis had spread to the rest of the world. However, the financial reforms and development of the financial systems in Asia during this decade since the Asian crisis have, to a significant extent, insulated our financial systems from these developments. However, the openness of the Asian economies have resulted in a significantly slower growth with economic contraction occurring in several countries.

In the immediate future, several favourable factors will support growth in Asia. Strong fundamentals, pro-growth policies and structural factors will support an early recovery. This is also being reinforced by greater regional integration. Going forward into the future, the global shifts taking place calls for a new economic model, one that would leverage on regional strengths, address the current and future risks and recognise the new global opportunities.

In the context of these developments, this conference will be discussing these issues and the new directions that are likely to emerge for Asia. Also important are the lessons that we can draw from the European experience. The agenda is for us to discuss the alternative economic models for the future, including the financial aspects and the role of policies and the international institutions. It is hoped that this will contribute to an increased appreciation and understanding of Asia and its changing role in the global economy.

In closing, I would like to once again thank you for your participation in this conference. The bringing together of speakers from Europe and Asia to discuss these important issues is likely to result in stimulating discussions. I wish you a successful and productive conference. To our guests who have travelled from far, I wish you a very pleasant stay in Kuala Lumpur.