Sukhdave Singh: The rise of the South at a crossroad – a view from East Asia and Latin America

Opening address by Dr Sukhdave Singh, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the World Bank Knowledge and Research Hub Conference "The Rise of the South at a Crossroad: A View from East Asia and Latin America", Sasana Kijang, Kuala Lumpur, 16 May 2016.

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I am pleased to welcome you to today's Conference on *"The Rise of the South at a Crossroad: A View from East Asia and Latin America"* organised by the World Bank Knowledge and Research Hub in Kuala Lumpur. For those of you who have not been here before, I would also like to welcome you to Sasana Kijang. I congratulate the World Bank Knowledge and Research Hub for organising this conference on economic integration.

Economic integration within the current global context

It is indeed an opportune time for us to look at economic and financial integration and what it can offer to emerging economies in Asia and Latin America.

It is an opportune time because the world seems to have been unable to bounce back towards a healthy growth path after the financial crisis in the developed world.

It is an opportune time because policymakers have not been successful in generating strong sustainable growth. The traditional tools for nursing the economy back to health don't seem to be working as well – possibly because of overuse or misuse.

A pedantic approach to monetary policy in much of the developed world has led to near zero and negative interest rates in many of these economies. Yet growth has remained stubbornly weak. Such policies also risk merely creating the transfer of growth across time rather than promoting sustainable growth over time. It is perhaps time to start asking whether the best way to recover from the blow-out of one debt bubble is to create the conditions for another. Central bankers and financial markets seem to be caught in a cycle of brinkmanship and central banks are caught in a trap of their own making. The outcome has been almost a decade of worsening financial repression, the progressive build-up of risks in the global financial markets, accompanied by weak investment and weak growth. It is clear that the lessons of the financial crisis have not been fully learnt in these economies – not by the financial markets and not by the policymakers.

Similarly, fiscal policy is supposed to be a tool that should be useful in supporting demand. But that is only if *it is used prudently and has been used prudently.* If the use of fiscal policy in the past has not been optimised – and that is often the case, with fiscal policy often being used for political ends rather than as an economic tool – then it is likely that fiscal policy has not only been ineffective in creating the conditions for sustainable growth, but that the opportunity to use it to support growth has also become significantly narrower. This is indeed the place where many emerging and developed nations now find themselves.

Today, we are seeing the limits of debt-fuelled growth. The world seems to need more and more debt to create less and less growth. That cannot go on. Debt has a role in supporting growth but over-dependence on it, and its misuse, has repeatedly resulted in bad outcomes. Therefore, we have to look at alternative means of creating more sustainable growth. One of those alternatives may be greater economic integration, regionally and globally.

In fact, economic and financial integration, whether regional or global, has been occurring. As a result, it has become increasingly difficult for individual countries to determine their independent path to prosperity. While not downplaying the importance of keeping our house in order and the need to promote competitive and transparent economies, it is nevertheless obvious that the fates of economies are increasingly linked to those of others. Integration has its benefits and it has its costs. In a world of low growth, the political rhetoric in some major economies has tended to focus more on the costs and less on the benefits. That is unfortunate, because given the current circumstances of the global economy, it is likely that we need deeper and fairer integration.

For emerging economies in Asia and Latin America, the question for us is whether deeper economic and financial integration offers a feasible path towards unlocking sustainable growth of our economies? How do we mitigate the costs and maximise the benefits? The World Bank theme paper for this conference provides a useful starting point for thinking about these issues. I will leave it to the learned speakers today to ponder on that. I will just briefly share my perspective on this issue with respect to ASEAN and Malaysia.

Asian regional economic and financial integration

The ASEAN Economic Community Blueprint 2025 contains ASEAN's vision of regional economic and financial integration over the next 10 years.

When it came to formulating the 2025 Blueprint, the issue of the nature of integration has always been central. The fundamental challenge remains on how to use regional integration to leverage on ASEAN's diversity in terms of economic size and structure, income levels, resource endowments and stage of financial sector development. Here, in the interest of time, I will just focus on ASEAN financial integration.

I remember that soon after the Asian Financial Crisis, there was a lot of interest in looking at the European model of a single currency. So much so, that we actually formed a taskforce to look into that possibility for ASEAN. However, that seminal work reached a very firm conclusion, which was accepted by regional policymakers. The conclusion was that ASEAN was not ready for a currency union, and will not ready for a long time to come. It was therefore not a goal that ASEAN should pursue as other forms of integration provided much more opportunity for increasing regional economic welfare.

What should the role of financial integration be within ASEAN? Essentially, it is as a catalyst for economic growth. Finance is the bridge that will facilitate the movement of trade and investment flows across the borders of regional economies. This is recognised and accepted by all ASEAN economies.

However, given the reality of the differing stages of financial development, and the risks associated with premature financial openness, the outcome has been the adoption of a flexible approach that enables its members to pace their integration based on their state of readiness. For example, in March 2015, the ASEAN Banking Integration Framework was launched. It adopts a bilateral approach to banking integration. Countries can negotiate reciprocative agreements that would allow Qualified ASEAN Banks to operate in each other's territory.

The Financial Integration Blueprint also recognises the risks of financial integration as well as the need to ensure that all sectors of society benefit from financial integration. Therefore, besides greater financial integration, the other two key pillars of the financial Blueprint relate to collaboration to promote financial inclusion and financial stability within ASEAN. ASEAN financial integration also promotes a gradual and prudent liberalisation of the capital account and it recognises the right of countries to take temporary capital flow management measures should these flows threaten to undermine stability. There is also ongoing work to strengthen regional surveillance arrangements, regional financial safety nets, and the regional crisis management and resolution framework. Therefore, while recognising the benefits of financial integration, there is also awareness of the risks, and this has led to a cautious but progressive approach that we hope would ensure that financial integration indeed contributes to sustainable growth of the ASEAN economies.

Conclusion

I will conclude with my view of the role of integration for Malaysia.

Since the financial crisis, Malaysia's growth has become more dependent on domestic demand and less dependent on external demand. While the resilience of domestic demand in the challenging environment is a noteworthy achievement, the reduced contribution of the external sector has clearly pushed Malaysia on to a lower growth trajectory. Since 2007, the contribution of net exports to real GDP growth has been negative with the sole exception of 2014. Over the longer term, the contribution of the external sector will need to expand to support a healthy and sustainable economy.

Therefore, for Malaysia, economic integration and strengthening our economic ties with other countries is a necessity. Preferential arrangements such as Trans-Pacific Partnership Agreement, the Regional Comprehensive Economic Partnership and ASEAN Free Trade Agreements have a critical role in spurring productivity growth, accelerating structural reforms and creating a diversified, competitive and resilient Malaysian economy.

Once again, welcome to this Conference, and thank you.