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## Global role in financial reforms

As the world becomes increasingly more interdependent, global responsibility becomes inherently important, given the far-reaching implications of developments in one part of the world on other parts of the world. While there has already been progress achieved in garnering consensus on global responsibility in the area of the environment and sustainable development, equally urgent now is global responsibility in the agenda for reform of the international financial system. This is in view of the even greater interdependence, arising from the stronger interlinkages between national financial systems and the more rapid pace at which the contagion occurs. Global considerations are therefore imperative if we are to achieve a shared global prosperity.

In relation to this, the financial regulatory reform in the aftermath of the global financial crisis of 2007 must be accompanied with such global responsibility. Given the highly complex nature of the international financial system and the very diverse global environment, several considerations need to be taken into account. First, the approach adopted needs to be comprehensive. The regulatory reform needs to be accompanied by the strengthening of the global international financial system that includes the development of the international financial infrastructure and financial markets. It also needs to include the strengthening of institutions, including multi-lateral ones, given that the environment in which they operate has been dramatically transformed with new risks and challenges. This is essential to ensure the effectiveness of the regulatory reform.

Similar efforts need to be made by emerging economies if there is to be effective participation in the international financial system. A more inclusive international financial system would therefore need to facilitate such participation without resulting in the risk of being marginalised, of being vulnerable to instability, and of being prone to frequent financial crises. On the international front, it would need an enabling international infrastructure, while on the domestic front it would require a more developed and strengthened domestic financial system that has the capacity to absorb and manage the risks associated with a more deregulated and liberalised environment.

Another element in the regulatory reform is to ensure its consistent application to similar financial centres across the globe. The uneven application of regulatory standards will incentivise migration to those less regulated jurisdictions. Failing to take this into consideration may prompt global shifts in activities that gravitate towards such jurisdictions. This would in turn encourage increased risk taking. Such developments would raise the prospect of financial instability in the surrounding region that could spread to the overall global financial system.

While reforms in the approaches and calibration of financial regulation and supervision are clearly needed to produce a financial sys-



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### my say

tem that is stronger and more resilient to system-wide risks and stresses, all too often, the global standards and conventions are developed and imposed on national economies even before their robustness have been tested. Furthermore, when such standards are applied to emerging markets, it may not reflect the inherent risks in these markets. With clarity of the objectives of the regulatory frameworks and structures, flexibility can be accorded to take into account the stage of development and mitigating factors that prevail in the individual economies.

Many of the prescriptions and conventions in the advanced economies have at times been directly or indirectly imposed as models to be adopted by the rest of the world. These include supervisory structures, the extent of the role of market discipline and the approaches to deregulation and liberalisation. During the Asian financial crisis for example, the Asian countries were encouraged to establish a supervisory authority that was separate from the central bank. Several of these models and conventions have now shown to be deficient and are being fundamentally re-examined. The sharp and major regulatory shifts can themselves create great uncertainty and instability, with high consequential costs to the system.

The formulation of international regulatory

standards, moving forward, needs to specify the preconditions to ensure the full objectives of the regulations are achieved. This will also create greater awareness and understanding on the approach taken by countries adopting the international standards or the modifications that need to be made to suit the different environment.

Turning now to Asia, Asia now and Asia previously is significantly different. Asia represents a region that has transitioned to a more competitive environment with greater market orientation while achieving a higher degree of resilience. While Asia has indeed been affected by the current international financial crisis, the impact has not been on the financial sector but on the real sector, arising from the contraction in world trade. Asia is, in fact, now seeing the significant payoffs from the financial reforms, institutional development and the strengthening of the financial infrastructure that have been undertaken in this recent decade. While financial markets have been volatile, financial intermediation has not been interrupted. Credit flows have continued to support the domestic economy. In addition, the capital buffers of the financial systems in the region are significant, allowing for the capacity to absorb further economic shocks.

Malaysia is a country that has taken advantage of this recent decade of strong growth to aggressively develop and reform our financial system and to strengthen our regulatory and supervisory oversight. With these preconditions in place, this crisis has not discouraged a significant liberalisation of our financial system

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## New economic models needed

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during the course of this year.

In Asia, the large monetary and fiscal stimulus implemented is also supporting domestic demand, and is expected to intensify further intra-regional trade. In addition, the region's households and firms are not over-leveraged and Asia's external position continues to remain strong.

Asia has also made significant strides in the area of regional cooperation. During the Asian financial crisis, responses by affected countries in the region were largely uncoordinated, with limited cooperation between countries. Today, extensive cooperation and collaborative mechanisms are already in place in areas of regional surveillance, regional institutional arrangements and financial crisis containment, management and resolution.

Further cooperative efforts in the development of regional finan-

cial markets and the further strengthening of the mutual liquidity support mechanisms have also been put in place to deal with any emerging financial crisis.

The global economic landscape that will confront Asia in the next few years will however be fundamentally different. Structural adjustments in the advanced economies will result in a prolonged period of slower global growth, and in turn, weaker global trade and external finance. Asia recognises that we can no longer be over-dependent on exports to drive our growth, particularly exports that rely on the final demand from advanced economies. Going forward, new strategies and new economic models need to be developed. While Asian countries have individually established policies that would encourage a greater role for domestic demand, the cumulative regional market supports the growing intra-regional trade.

A global shift is thus taking place, one that is resulting in an increasingly multi-polar world. In this new phase of globalisation, the concentration of economic power within the global economy will become more dispersed. Asia is very much a part of this new future that is emerging. As a group of highly diverse economies, it increases the potentials for complementarities. Moving forward, the key structural changes taking place in Asia — including the strengthening of domestic demand, the development of regional financial markets, the greater regional financial integration and cooperation — will not only contribute towards unlocking Asia's full potential in the global economy but also contribute to more balanced global growth and global financial stability. ■

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