

Financial Liberalization, Integration and Regulation in Asia



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The Paper

- ❑ Comprehensive and thoughtful paper on Asian financial liberalization and integration.
- ❑ Main focus is to assess ASEAN policy efforts on developing an economic and financial cooperation at the regional level, especially after the Asian financial crisis.
- ❑ The framework of analysis is not economic, but is based on an institutional approach.

Key Conclusions

1. Asian financial integration is found to be modest on account of the governance issues, including the ASEAN Way.
2. The Asian financial crisis diverted the attention away from financial integration, but the revealed weaknesses did not lead to either meaningful reforms or changes in mutual non-interference.
3. Potential exists especially through existing mechanisms, i.e. CMIM, to set the stage for stronger regional institutions.
4. Provocative conclusions but need to be balanced by economic considerations.

I. What explains the modesty?

- ❑ Modest pace is the outcome of a collective and careful policy design.
- ❑ Not all countries meet the prerequisites for a fully-liberalized capital account, given the diversities that exist.
- ❑ Not ready to give up monetary independence.
- ❑ The economics of free capital mobility is also an issue.
- ❑ So far, the approach is more market-led, rather than policy-led.

II. Prospect for further liberalization and integration in Asia

- Potential is large.
- Post-crisis economic and financial landscape that is emerging will be beneficial to the region's financial sector, i.e. growing intra-regional trade and domestic demand.
- Policies will ensure:
 - 1) new opportunities will be met,
 - 2) raising abilities to manage risk to financial stability,
 - 3) allowing financial integration to grow.

Going forward, financial integration will be driven by forces at three levels

1. Individual country level through continued financial liberalization and reform.
2. Regional grouping in response to changes in global rules and regulations, i.e. adapting the changes in global regulations and standards to local setting.
Another is through regional financial integration initiatives of ASEAN focusing on developing the region's bond and capital markets.
3. Through existing regional cooperation mechanisms, i.e. CMIM, and progress can benefit from increased global role of regional members.