

**ASEM Conference on  
Beyond the Global Crisis: A New Asian Growth Model?**

**Session 3: Asia's New Development Strategy: Where Now?**

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A global shift is currently unfolding, resulting in significant changes to the global economic and financial landscape. While this trend is being driven by structural changes that have been occurring over time, we can expect that the pace of this adjustment will intensify in the period following the current financial crisis. In a future environment that is going to be fundamentally different, Asia will be confronted with new challenges. While there is now evidence that Asia will lead the world in economic recovery, Asia needs to manage these fundamental new global trends to ensure the sustainability of our economic progress.

Distinguished guests,  
Ladies and Gentlemen,

2. While noting the previous strategies that have contributed to Asia's earlier successes, my remarks today will focus on Asia's future and the strategic thrusts that are needed to ensure the sustainability of our economic advancement. The case will also be made for greater regional economic and financial integration as a critical part of the new development agenda for Asia.

3. The experience of economic development in Asia for more than half a century has been remarkable. With more than half of the world population, Asia is one of the most diverse regions. Despite being interrupted by crises from time to time, Asia has, in general, attained sustained high economic growth and witnessed rapid structural economic transformation over the decades. Asia today contributes about one-third of the global output and world trade. Asia's rapid development has also led to higher per capita incomes, lifting millions out of poverty. Social conditions have

improved, with enhanced opportunities for healthcare, education, and general welfare. What has been exceptional is the accelerated pace at which this development has been achieved.

4. Given the immense diversity of the region, it would not be possible to identify the specific development strategies that have contributed to this rapid economic progress and transformation. Nevertheless, five common features can be identified. **First** is the importance accorded to institutional-building. This has supported the industrialisation process, the shift of resources from traditional economic activities to a modern economy with enhanced efficiency, productivity and competitiveness. **Second**, Asia's high rate of savings that exceed 30% of GDP has enabled both the private and public sectors to fund capital accumulation from domestic sources. **Third**, the Asian economies have adopted an outward-oriented development path in the early part of its development. Most of Asia has also promoted a conducive environment for foreign direct investment (FDI). The Asian trade volume to total world trade increased from 14% in 1970 to 28% in 2008 while the investment flows increased from 7% of total global FDI in 1970 to 20% in 2007.

5. Of significance is that the **immense diversity** of the Asian economies has not been a constraint to progress. On the contrary, Asia has been able to leverage on the complementarities. This has also contributed to the strengthening of trade linkages within the region, as well as the transfer of capital, knowledge and technologies which has strengthened further the industrial capabilities of the region. **Finally** the economic flexibility of Asia has allowed resources to shift continuously to new areas of comparative advantage.

Ladies and gentlemen,

6. The 1997 Asian financial crisis represented a significant juncture in the history of Asia. While the crisis exposed weaknesses in both the domestic economies of Asia and in the international financial architecture, Asia responded by introducing wide-ranging financial reforms in the period that followed the crisis. Initiatives were also undertaken at the regional level to detect and manage risks and vulnerabilities in the region.

7. At the national level, reforms were primarily aimed at developing more resilient and efficient financial systems. Amongst

others, sound regulatory regimes have been established, prudential regulations strengthened, governance and risk management practices enhanced, while institutional development was also accelerated. Increased deregulation and liberalisation have also promoted a more competitive environment. Efforts have also been focused on developing the financial markets, in particular the capital markets, which has now resulted in a more diversified financial system.

8. Of greater significance is that regional cooperative efforts post-Asian crisis have been raised to a higher level facilitating further the financial integration process. The increased financial integration has provided a platform for regional development through channelling part of the high savings in Asia to be invested in Asia. Extensive efforts have also been put in place in the areas of surveillance, crisis management, liquidity support arrangements and the development of regional financial markets and other financial infrastructure. Reflecting these efforts, a more integrated, diversified and resilient financial system in Asia is now emerging.

Ladies and gentlemen,

9. While the global economic and financial landscapes was already undergoing significant changes in this decade, the current global crisis has accelerated the pace of this transformation. Asia recognises that previous strategies that brought success may now be no longer relevant in this new global environment. With the continued rise in importance of the region in the global economy it has also increased the potential for Asia to contribute towards a more stable and sustainable global economy.

10. While increased global economic integration has contributed to Asia's earlier success, it has also been due to the inclusive approach to development. This strategy of outward orientation has resulted in the Asian economies to be among the most open economies in the world. While greater international integration will continue, the pattern of this integration will change. It will become increasingly diversified to other emerging economies, in other parts of the world, and in particular, within the Asian region.

11. Going forward, three major changes are taking place in Asia which can be expected to intensify going forward. The current crisis has shown the effects of Asia's reliance on final demand from the advanced economies. The contraction in demand from

the crisis affected economies resulted in sharp declines in trade and growth across the region. The globalisation of productive networks further amplified the magnitude of this collapse in trade in Asia. **An important strategy for Asia going forward is to promote domestic demand.** While this has already happened, structural conditions in Asia will accelerate the pace of this rebalancing of the Asian economies. This economic diversification will provide increased resilience in the face of external shocks and will enhance the overall growth prospects for Asia. It will also contribute to the unwinding of the global imbalances.

12. Several preconditions are already in place to support the strengthening of domestic demand in Asia. The rising income levels, the broadening of this affluence, the favourable demographic structures, the low unemployment levels and the relatively low levels of leverage by households are likely to contribute to higher consumption. The large and growing new spending patterns have also led to the rise of a modern retail sector across the Asian region.

13. This potential for rising domestic demand is further supported by a strengthened financial sector that has continued to provide access to financing to households. One critical area needed to unleash the further potential for domestic demand is the development of a more comprehensive social safety nets. This is particularly in the area of pensions and retirement benefits, education and healthcare. Towards this objective, the further development of institutions, including that of the insurance industry and pension funds, would provide instruments to reduce the need for high precautionary savings and thus encourage further consumption.

14. **An important outcome of the increased role of domestic demand in the Asian economies is the huge cumulative market it creates. The second strategy is therefore the further diversification of the external markets. In particular, to accelerate the efforts for greater intra-regional trade in Asia.** Post-Asian crisis, Asia's export markets have become increasingly diversified with intra-regional trade gaining greater importance. Intra-regional trade as a share of total trade of the region has risen from 25% in 1980 to 45% in 2006. Going forward, the composition of trade from intermediate inputs for the production of goods for

final demand in the traditional markets need to shift towards meeting the increasing final demand within Asia.

Ladies and gentlemen,

15. Finally, Asia has reached the stage of development where its further advancement calls for deeper financial integration. Regional financial integration is associated with increased capital mobility within the region and regionally more interconnected financial systems. An important strategy going forward is to **further strengthen financial integration within Asia**. While the lack of regional financial integration previously has not been a constraint to economic integration, greater financial integration brings with it several benefits. A more integrated regional financial system would enable better matching of savings and investment in the region, allowing for Asia's large pool of savings to be channelled into productive uses within the region. This would not only contribute to lowering intermediation costs but would also support intra-regional trade and investment. It would also increase the potential to raise funds and provide a larger investor base. The development of financial markets in Asia would therefore encourage a part of the Asian savings to be reinvested in Asia. This in turn would contribute towards global financial stability.

16. While several initiatives have already been taken to advance financial integration, deepening further financial integration in the region requires further efforts in the following four areas: financial sector liberalisation, capital account liberalisation, the development of regional payments and settlements systems, and greater cooperation among regional regulators and central banks. In pursuing these priorities, consideration must however, be given to the diversity of the various economies within the Asian region. In addition, the various policies and reforms that are needed must be sequenced and aligned to the heterogeneities of the various economies to ensure that such reforms would not lead to disruptions and financial instability.

17. Further financial liberalisation that would allow for greater presence of regional institutions in the individual domestic financial systems and greater foreign participation in regional financial markets would also facilitate trade and investment flows. It would also allow firms and investors to better tap the regional financial markets to obtain the best pricing and to diversify risks. Removing these restrictions gradually to facilitate a greater presence of Asian

financial institutions and investors in each other's financial systems would facilitate the financial integration process.

18. Second, capital account liberalisation would facilitate greater cross-border investment and capital flows. Equally important, however, is for the liberalisation process to be appropriately sequenced and based on a well-functioning, well-regulated and adequately developed domestic financial system. In addition, the surveillance systems needs to be in place.

19. Third, as payment and settlement systems are relatively well-developed in most of the Asian markets, the increased linkages of the national payments systems would enhance efficiency of cross border flows and thus reduce the cost of financial transactions within the region. Several efforts have been initiated including the link-up of various components of the payments systems of several Asian countries. It has resulted in improved liquidity management, as well as more efficient forms of payments. These initiatives can be enhanced further as more integrated regional payments and settlements systems are developed.

20. Fourth, as greater financial integration also brings about risks, cooperation among the region's financial regulators and central banks has now been further strengthened. With significant strides already accomplished, a key agenda for Asia will be to raise cooperation and collaboration to a higher level. The institutional arrangements have now been established for regional surveillance and for financial crisis management and resolution which also includes the liquidity and mutual support arrangements that are already in place. This has been reinforced by the development of regional financial infrastructure in the areas of financial markets and regulatory and supervisory frameworks. Given the growing depth and magnitude of economic and trade interlinkages within Asia, this will be fundamental towards preserving the overall macroeconomic and financial stability in the region.

21. Deeper financial integration within Asia will also facilitate advancing the strategic positioning of the region in the global financial landscape. Asia now has an increased voice in international financial reforms and the setting of international standards. This represents a positive development and presents the opportunity for the interests of emerging economies, such as in Asia, for participation in the process. It is hoped that in so doing a

more balanced and inclusive solutions would be derived to contribute positively towards greater global financial stability.

Ladies and gentlemen,

22. In a period of just fifty years, Asia, has made remarkable progress throughout the region. Despite being confronted by many challenges, Asia has time and again risen to the occasion and resumed its economic progress.

23. In today's environment, the unprecedented global financial crisis is prompting an acceleration in the pace of the transformation of the global economy, resulting in an increasingly multi-polar world. To participate effectively in this new phase of globalisation previous strategies that brought success need to change. This will involve the need to strengthen further domestic demand in the Asian economies supported by greater regional economic and financial integration that is reinforced with enhanced regional financial cooperation. As these trends become more pronounced, it will not only contribute towards unlocking Asia's full potential, but it will also contribute towards a more balanced global growth.

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