

Why and How Asia Must be the Next Pillar for the World Economic and Financial System

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Honorable guests,

It is an honor to be with distinguished participants of the 27th Asian Pacific Bankers Council (APBC) Annual General Meeting and Conference, as I, at one time, was a member of your good group as President and CEO of the Siam Commercial Bank.

In normal time, I would have come here just to boost our moral by saying that Asian Banks and Thai Banks are resilient. Our bankers perform well, and so on.

But the time is different. The financial crisis has begun in the US and continued to spread throughout the world. Although, Asian and Thai Banks are strong with relatively low exposures to Subprime loans, CDO and CDS, we might have to come up with a solid solution how to contain such risks from spreading in Asia and should we Asia play a part in contributing to the global solution.

I, therefore, would like to take this opportunity to share with you my views on *Why and how Asian countries are to take up the role of the next pillar for the world financial and economic system.*

Ladies and Gentlemen,

As the U.S. and European financial systems are weakened and sink into consolidating stages, new lendings to other world institutions and domestic real sectors collapse. Coupled with the fact that other countries are less willing to provide new funds to plug the estimated 600 billion US dollar holes in the U.S. and European major banking systems, the real economy of the 2 continents will enter into a recession. The only question is how long will the recession last and what roles can the less damaged Asian financial systems of China, Japan and the rest of Asia play in our all-out efforts to stabilize the world financial and stock markets and hence the global economy?

Some of the more active sovereign wealth funds of Asia and the Middle East have already put their money in to plug the holes in the banks weakened by the writedowns on bad subprime loans and related derivative products such as Collateralized Debt Obligations (CDO) and Credit Default Swap (CDS). As the private equity and sovereign wealth fund capital injection into the Western banking systems alone is not enough to stabilize the markets and to restore international confidence in the major banks, the Western financial authorities finally realize that the ultimate steps in the rescue package are to inject public funds to recapitalize major banks, as Japan, Thailand and China had done successfully in the past 10-15 years, as well as an outright buying of good and strong earning company shares in the stock markets as Hong Kong had done successfully after the Asian Financial Crisis in 1997. Even though the major banks' finance and their stock prices might eventually stabilize during the last quarter of 2008, will the U.S. and Europe economies escape a recession in 2009 and beyond? Most economists and market analysts including myself will say "highly unlikely."

Can Asia help restore confidence in the international financial and stock markets and help nurture the world economy out of the likely global recession by pursuing coordinated, focused and strong policy initiatives across Asia? If yes, what are key components and sequences of this required policy package?

Here are some of my proposals.

- First, confidence in the existing strength, stability and integrity of the major Asian banking systems must be assured by the concerned authorities.

- Second, normalcy in the Asian stock markets must be restored in a positive manner by making the right information available to institutional and individual investors of fair earning prospects relative to the very depressed prices of listed shares after the Lehman Brothers, General Motors and Ford incidents. Some policy encouragements in the form of special tax rebates to local investors and relaxations of strict rules on Treasury share buybacks by companies with ample liquidity and good earning prospect as demonstrated by the management's and major shareholders' actions can go a long way to help restore trading volume normalcy and price stability of prime companies listed in the stock markets of Asia.

- Third, moving quickly from the damage-control and ring-fencing phase for domestic financial and stock markets of healthy Asia against the Western financial fall-outs, all Asian countries, particularly China and Japan must accept the role of being the new financial and economic pillars of the world, not only for the good of Asia, but also for the good of the West, Africa, and Latin America.

In addition to the first policy goal of financial and stock market stability, the next step for Asia should be an implementation of the proposed, multilateralization and expansion of short-term liquidity support scheme or the Chiangmai Initiative (the CMI) to at least 150 billion US dollar equivalents and the pooling of sovereign wealth funds to invest in long-term Asian equity and bonds (the Asian Bond New Deal) to finance infrastructure projects across Asia up to 200 billion US dollar equivalents, making the total of 350 billion dollar equivalents for short-term and long-term self-supporting financial facilities. But *Asia has to put up the money where our mouth is* by pooling the combined international reserves in the convertible currency such as the Japanese Yen and to-be-convertible currencies such as the China Yuan. Please note that convertibility can now be defined as among the strong Asian currencies themselves.

Last and the most important, I would propose that Asian countries put up initially an additional 10% of our combined foreign reserves, an initial down-payment of 350 billion US dollars of new money stock. The composition of the new reserves in the Asian Convertible Currencies will be based on proportions of each country's international reserve level, population and GDP. This is what I consider the initial and meaningful step towards the emergence of "*The Asian Financial Community*" of the next decades.

Once the pooled reserves in Asian currencies are put in place, Asia would be assured that we all have enough money to facilitate Intra-Asian trade, investment and tourism among ourselves during the expected recession in the Western world. In the final analysis, Asia together would have to find ways and try to coordinate and implement the right policies to increase our Intra-trade, investment and tourism without much concern about unavailability and inadequacy of Asian finance. It is time for Asia to "*turn this financial sector crisis into real sector opportunity*" for our own good and for the collective good of the world.

How about the domestic demand stimulation policies as practiced concurrently by the Western governments in tandem with the financial restructuring of the major banks. Definitely, *all countries in Asia have to use the newly created money stock denominated in our "Asian Convertible Currencies" to lubricate not only intra-Asia trade, investment and tourism, but also to finance domestic spending via our own supportive fiscal, monetary and credit policies.* As Asian banks are strong and adequately capitalized, it is clear that while fiscal and monetary policies are implemented through public sector spending programs, both current and capital, both small and mega-projects, it is of utmost importance for the financial authorities to devise incentives scheme to encourage banks to lend and business enterprises to borrow as normally as possible.

The primary area that must have priority will be primary commodity financing as the major crops such as rice, corn, sugarcane, tapioca and rubber come out towards the end of 2008 and early 2009. The processing, export and domestic sales of

these commodities and their credit requirements by the small and medium size enterprises (SMEs) must also be taken care of urgently by the concerned government agencies. International trade and cross-broader tourism among countries in Asia will be lubricated by the related domestic credit expansion and the new world money stock creation without undue trade barriers and obstacles. The Asian+3 Side-Line Meeting in Beijing on October 23, 2008 clearly confirms this commitment. The ASEAN+3 leaders have instructed their finance ministers and central bank governors to recommend methods of multilateralization and expansion the Chiang Mai Initiative facilities for the leaders' decision and adoption no later than the planned ASEAN+3 Summit Meeting to be held in Thailand by mid December 2008.

Distinguished Guests,

Change has been more profound than we first thought, and I hope that the proposal presented to you today would help to improve sentiment and has far reaching positive impacts on the banking sectors and capital markets, and bring situation back to normal as soon as possible. The ASEAN + 3 finance ministers and central bank governors are to meet in Manila on November 12, 2008 to workout technical details and I am sure they are to consult all of you as the leading private bankers about the operational aspects of my proposal.

Please give them advice because without your support and participation as the movers and shakers of the Asian banking community, the new financial center of the world based in Asia and “the Asian Financial Community” cannot be created and nurtured. There is no time for all of us to wait. Asia can either rise to lead or the whole world banking system and economy to fall together.

Finally, I wish all the success to the 27th Asian Pacific Bankers Council (APBC) Annual General Meeting and Conference. Please have a successful and substantive conclusions and recommendations.

Thank you for our kind attention.