

**Boao Forum for Asia Financial Cooperation Conference – Dubai
Session Summary No. 6**

Boao Forum for Asia

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Establishing a safe, secure and efficient financial system for Asia

Moderator: Jame Di Biasio, editorial director, Haymarket Media

Panelists:

- HE Shaukat Aziz, former prime minister, Pakistan
- HE Krishan Balendra, president, John Keels Holdings; chairman, Nations Trust Bank; former chairman, Colombo Stock Exchange
- Faheem Ahmad, president, Association of Credit Rating Agencies in Asia
- HE Cai Esheng, former vice chairman, China Banking Regulatory Commission
- HE Li Jiange, chairman, Shenyin & Wanguo Securities
- Bryan Stirewalt, managing director of supervision, Dubai Financial Services Authority
- Zhu Hongbo, vice president, China Construction Bank

Key points:

- The twin financial crises of 1997 and 2008 have many lessons for Asian financial cooperation, including the need to work together and take into account the global economic outlook in regulation and policy
- The banking sector is too risk averse and is not acting as a catalyst for change, one downside of the fallout of the financial crises
- China is taking steps to pursue financial liberalization and internationalization, the Shanghai-Hong Kong Stock Connect initiative is one example
- There is too much reliance on equity markets in Asia, access to bond and capital markets needs to be boosted
- Strengthening governance in the financial sector is crucial for stability, including enforcement of cross-border transactions and legal predictability of contracts

Synopsis

The session opened with panelists discussing some of the key lessons from the last two major financial crises: the 1997-1998 Asian financial crisis and the 2008 global financial crisis.

HE Cai Esheng opened by reminding participants that because the 2008 crisis was global in nature, the policies put in place following the crisis – such as quantitative easing – were much more complex than the policies adopted after the 1997 regional financial crisis. Efforts in Asia now concentrate on the formation of free trade zones in the Asia-Pacific region to strengthen and stabilize the real economy. “Different governments have realized the issues

themselves,” said Cai. “The problem is how to reach a consensus, to get unified, consistent planning to jointly promote the work.”

HE Krishan Balendra then went on to provide Sri Lanka’s experience as a small country during the financial crisis. “One of the key lessons from the two crises, and particularly the Asian financial crisis, is the extent to which you liberalize the capital account,” said Balendra. “It is something governments should be wary of until [domestic] financial strength is in place.”

Panelists then discussed the tunnel vision of stakeholders, which had been a factor in the crises. Bryan Stirewalt said one lesson that had not been learned was the need for regulators to look at the world economy, not just take a country-centric view. “One of the lessons that needed to be learned from the financial crisis, and that still needs to be learned to a great degree, is trust between the regulators in not just protecting your own turf but looking at the global picture,” said Stirewalt. “It’s not impossible to do, but it’s brave.”

HE Shaukat Aziz said regulators, bankers and policy makers must all work in tandem and understand the macro-environment, the industry and only then look at the credit worthiness as key steps in risk management. Aziz noted no one has the exclusive on wisdom: “The regulators are not banking experts either. You have basically a competence deficit in the financial system, even today.”

The flip side of lessons from previous crises is the banking industry is too risk averse today, said Aziz: “Regulators, since they are not so comfortable with the industry, they don’t play another role I think they should play, which is to be a catalyst for change and innovation and bring in new products. That’s a big failing of the system.” Aziz noted the need to strengthen regulation without putting a stranglehold on business.

A case study was offered by Zhu Hongbo. Zhu talked of China’s goal to pursue financial liberalization and the accelerating pace of China’s internationalization. “One lesson from the past two financial crises is to build a solid real economy to have financial stability,” said Zhu. “China’s globalization initiative is to make China’s financial sector healthier, more stable and more resilient to global risks.”

HE Li Jiange went on to mention the Shanghai-Hong Kong Stock Connect initiative as one example of China’s pathway to liberalization. “The launch of the Shanghai-Hong Kong Stock Connect was not as hard as we thought,” said Li. “I think it will be sooner rather than later that China’s capital market will be connected to other places.”

Moving on to talk about financing new projects in Asia, Faheem Ahmad noted the over-reliance in Asia on equity markets. “We are left with no shirt or pants,” said Ahmad. “Unlike in Japan or the US where they can switch to the bond market.” He noted infrastructure connectivity projects will need to access bond markets and capital markets to realize the projected \$10bn to \$20bn needed for infrastructure development. The amounts currently available through the Asian Infrastructure Investment Bank and other Chinese initiatives were not sufficient, said Ahmad.

Credit ratings are a crucial aspect. “It’s so important that the sovereign ceiling is applied across the emerging markets. We cannot go and access the dollar or the euro because of the three rating agencies,” said Ahmad. “We pay a huge price if we are not rated.”

In response to a question from the floor, the session moved on to talk about financial inclusion and sharing Asia’s growing wealth. Aziz welcomed the question, saying the equal distribution of wealth and growth is one of the key tasks of policy makers.

Aziz and Stirewalt noted the tools for achieving this include taxation, microfinance and microcredit, and installment financing programs. “Regulators have a role to play in not killing those instruments by over-regulating,” observed Stirewalt. “[Regulators should] not regulate how much capital should be on the balance sheet but make sure they’re treating people fairly.”

Finally, the session talked about governance in the financial sector. Panelists noted more needs to be done to strengthen enforcement of cross-border transactions, legal predictability of contracts, and bankruptcy, default and recovery laws.

Zhu emphasized that good management and strong performance of banks were vital to a healthy financial system: “Size does not matter, performance matters the most.”

Participants also noted the Chiang Mai Initiative— a multilateral currency swap agreement – as one example of Asian financial cooperation implemented after the financial crises. This initiative showed the way for further Asian cooperation. Aziz concluded that within Asia there is a lot of room for further growth, linkages and learning from each other that would improve the quality of the financial sector.