

KIEP International Conference

Toward Common Prosperity for the Asian and World Economies

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(Introductory Remarks)

Dr. Kyung-tae Lee, President of the Korea
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Distinguished experts and guests,

Ladies and gentlemen,

I am very delighted to be here today to speak at this important conference, held jointly by the KIEP, the Centre for International Commerce and Finance of Seoul National University, the Euro 50 Group and the Reinventing Bretton Woods Committee.

At this stage, when Asia is steadily raising its profile in the world economy, the holding of a conference on this theme, **“A Decade Later : Asia's New Responsibilities in the International Monetary System”**, seems very timely and meaningful.

(The Asian Economy's Rapid Growth and Tasks Confronting It)

As we are all aware, the Asian economy has advanced its standing in the world economy through the active pursuit of export-oriented growth strategies, combining its ample human resources with overseas capital. Although it suffered a setback during the foreign exchange crisis of the late 1990s, the Asian economy overcame this very rapidly. And with the rise of the Chinese and Indian economies, Asia has now grown into a vast economic bloc on a par with North America or Europe.

According to a report presented by the Eminent Persons Group to the ADB this March, the share of Asia in global GDP, in terms of purchasing power parity, had advanced from 20% in 1980 to 35% in 2005. The report also forecast it would rise to reach 45% by 2020.

The growth of the Asian economy has undoubtedly boosted the prosperity of the world economy, in terms of both the supply and the demand sides. Above all, Asia has contributed greatly to the welfare of consumers worldwide through its supply of low-cost goods and services. This has provided the foundation for the 'Great Moderation', allowing the continuing growth of the world economy under low and stable inflation. In addition, Asia has emerged as an immense new consumer market, based upon its swift economic growth and the consequent increases in its populations' incomes.

Intra-Asian trade has enjoyed a great expansion, with Asia carrying out its role as a major motive power behind global economic growth. The share of intra-regional exports in total exports of Asian countries averaged 55% in the 1999-to-2004 period. This was considerably higher than the share of 44% during 1985 to 1995.

Of course, concerns have arisen about imbalances between the real economy and the financial sector. This is the flip-side of the story of rapid growth of the Asian economy. In its growth and development, the Asian financial industry has been unable to keep pace with the real economy, and this may hinder economic efficiency and growth potential. Moreover, the lack of efficiency in Asian capital markets has encouraged their capital to flow out into advanced countries such as the U.S., and thus acted as a factor intensifying the global imbalances.

From our experience of the Asian currency crisis in the late 1990s, we have learnt how severely financial sector fragility can undermine the foundations of the economy. We should also bear in mind that, as financial integration progresses, the contagion effects could become much greater than before.

For this reason, it is essential that Asian countries make very determined efforts for financial sector development, in order to achieve sustained growth. I believe that, first, a drive to upgrade financial systems at the national level is required, and second, we very much need further strengthening of financial cooperation among our regional countries.

(Development Task I : Advancing Individual Countries' Financial Systems)

Let me first talk about the issue of advancing individual countries' financial systems.

In advancing the financial systems of Asian countries, it is essential that we lay stress on the promotion of financial efficiency based upon market principles.

To begin with, an environment favorable to financial innovation should be created, through the reforming of regulations in a market-friendly manner. Financial market openness and capital liberalization should be gradually expanded to strengthen the competitiveness of domestic financial institutions. Financial legislation and practices, corporate governance structures and disclosure systems should be realigned in such a way as to put them in accordance with global standards. Furthermore, much effort needs to be put into developing domestic institutional investors and fostering financial experts.

Financial stability, as we all know, can be secured on the stable foundation of the real economy. In this respect, it is of course very important to maintain consistency in our macroeconomic policies.

(Development Task II : Strengthening Regional Financial and Currency Arrangements)

Now let me turn to the matter of strengthening regional financial and currency arrangements.

It is vital to strengthen regional financial arrangements, both in order to keep up with the expansion of intra-regional trade and to facilitate joint regional responses to any possible international financial market instability.

Since the foreign exchange crisis, financial arrangements among regional countries have been progressively enhanced, in forms such as the currency swap agreements between central banks under the Chiang Mai Initiative (CMI). However, they do not yet go beyond offering a limited level of liquidity support.

Mutual cooperation has also yielded some

results, in the form of the Asian Bond Market Initiative (ABMI) and the Asian Bond Fund (ABF), but the scale of these undertakings has not been sufficient to stimulate regional bond markets.

Also since the currency crisis, a number of Asian countries have greatly expanded their foreign exchange reserve holdings, as buffers against external shocks. The process of building up these large volumes of reserves, however, has led to increases in countries' opportunity costs, revealing, perhaps, the limitations of unilateral efforts.

As one effort to strengthen our existing regional financial arrangements, I think it is necessary to expand the current *bilateral* liquidity support mechanism under the Chiang Mai Initiative to one that is *multilateral*. As another effort, we must also focus on development of regional capital markets. To facilitate efficient oversight of the regional financial markets as a whole, moreover, we need to

construct a framework for information-sharing and joint monitoring among our nations' central banks and supervisory authorities.

As I mentioned earlier, it is important to map out a basis for currency arrangements among Asian countries, in order that we avoid regional economic instability arising from abrupt exchange rate adjustments on the parts of individual countries.

To this end, it is necessary to strengthen economic cooperation, for instance through conclusions of FTAs among regional countries.

Currency arrangements with the ultimate goal of creating a single regional currency, an Asian Currency Unit, remain a task to be studied in the medium and long-term. The main reason is of course the great differences now existing among regional countries in their degrees of financial and economic development.

(Concluding Remarks)

Ladies and gentlemen,

For the sake of common prosperity of the Asian and world economies, it is to my mind essential that we develop our comparatively laggard Asian financial sector to a level matching the great achievements of our real economy. With that in mind, I look forward to this conference providing well-thought-out ideas and opinions concerning regional financial development and cooperation.

Drawing my remarks to a close, I would like finally to express my hope that this conference also provides our distinguished guests an excellent opportunity to enjoy the beautiful Korean spring, and to grasp something of the flavor of Korean culture.

Thank you.