THE ASIAN FINANCIAL CRISIS 10 YEARS LATER: WHAT HAVE WE LEARNED?

25-26 JUNE, 2007
SINGAPORE

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CONFERENCE REPORT

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INTERNATIONAL POLITICAL ECONOMY PROGRAMME

S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES,
NANYANG TECHNOLOGICAL UNIVERSITY

OVERVIEW OF THE CONFERENCE

What have we learned from the 1997 Asian Financial Crisis? Thailand's recent handling of international capital flows makes this topic of particular relevance, especially when we consider that Thailand was the precipitating country in the '97 financial crisis. Do Thailand's recent problems suggest that other countries have not learned the appropriate lessons, nor implemented sufficiently corrective measures? Moreover, are there potential new problems on the horizon - such as the unwinding of global imbalances - that could pose different challenges? To answer these questions, the conference on the "Asian Financial Crisis 10 Years Later: What Have We Learned?" convened a distinguished group of individuals from government, the private sector, international organizations, and academia.

This conference explored issues around these concerns. Specific issues that were addressed include the following: (a) an overview of developments in the main affected countries during the 1997 Asian financial crisis; (b) lessons learned and corrective measures taken in these countries; (c) lessons learned by regional and international actors; (d) how domestic, regional, and international politics have affected the outcomes; and (e) the identification of potential future problems, and levels of preparedness. The conference was unique in that it convened senior policymakers and top decision makers primarily from the Asia-Pacific at the time of the crisis. Consequently, lively discussions between policymakers revealed several events and facts that have never come to light before. Moreover, senior academics were also invited to the conference to provide a theoretical perspective on the Asian Financial Crisis and its implications, hence allowing for greater interaction between policy makers and academics.

DAY 1

WELCOME REMARKS

In his welcome address, Mr Barry Desker, Director, Institute of Defense and Strategic Studies (IDSS) and Dean, S. Rajaratnam School of International Studies, outlined the main reasons behind the Asian Financial Crisis of 1997/98, and pointed out the ways in which this crisis was unique when compared to other economic crises such as Mexico and Argentina. However, he noted that learning about the circumstances that led to the crisis is not an end in itself, and the repercussions of the crisis on policymaking are what are more important. Mr Desker stated that since its very inception, RSIS has encouraged the interaction between academia and policymaking. Therefore, the purpose behind this conference is to review the Asian Financial Crisis ten years later and to bring together a broad range of policymakers and academics to discuss the repercussions of this crisis on policy making today.

Mr Desker also noted that Singapore, being one of the major financial centers of the East Asian region, was an ideal city for such a conference to be hosted. Moreover, RSIS is the perfect host for such a ten-year retrospective conference, which aims at extracting policy recommendations not only for East Asian countries themselves, but also for other countries emulating the East Asian model. He stated that the International Political Economy program at RSIS is unique compared to other similar programs in Asia, as it emphasizes theoretically rigorous, multi-disciplinary analysis that takes into account the inter-linkage between international economics and international relations.

In conclusion, Mr Desker stated that he hoped that this conference would generate a good discussion regarding how the Financial Crisis of 1997/1998 and its aftermath have affected the level of preparedness of the East Asian region to tackle potential problems in the future.

OPENING REMARKS

LIM HWEE HUA
MINISTER OF STATE FOR FINANCE AND TRANSPORT

Minister of State for Finance and Transport, Mrs Lim Hwee Hua remarked that ten years ago, the Asian Financial Crisis threw regional markets and economies into turmoil. She noted that Asian countries could have responded to this crisis by withdrawing from globalization. Instead, Asian policymakers chose to maintain broadly open economies while undertaking significant, and often painful, reforms to manage the challenges brought about by globalization. She stated that this has not only accelerated Asia's economic rebound, but has also strengthened regional resilience against future financial shocks. As a result, Mrs Lim Hwee Hua noted, Asia's economies are once again experiencing robust growth today, at a rate much faster than the rest of the world. Nevertheless, she stated that there are invaluable lessons to be learnt from Asia's experience, especially in terms of governance and transparency and bond market development.

Mrs Lim Hwee Hua also highlighted some challenges facing the Asian economies, including global financial market volatility and competition from emerging economies such as India and China. In conclusion, she stated that Asia will continue to make good progress in corporate and financial sector reform, as long as regulators and market players remain committed to banking reforms.

KEYNOTE ADDRESS

EISUKE SAKIKABARA
PROFESSOR AND DIRECTOR OF THE INSTITUTE FOR INDIAN ECONOMIC STUDIES, WASEDA UNIVERSITY

Keynote speaker Mr Eisuke Sakikabara, Professor and Director of the Institute for Indian Economic Studies, Waseda University mentioned that the IMF tightened fiscal policy and the role of the financial institutions. He also mentioned that free floating exchange rate was imposed by IMF in the middle of the crisis. According to Mr Sakikabara, we have not learnt lessons from the crisis. The financial infrastructure is still unreformed and incomplete. Countries like China and India were not hit by the crisis and they therefore took a gradual approach to capital account convertibility. He said that there have been some moves made to avert future crises of similar nature, but the efficacy of those moves is yet to be tested.

Mr Sakakibara also mentioned that MNCs from Korea and China are becoming leading sources of FDI in the Asian region. Moreover, regionalism in terms of trade and FDI has been on the increase has primarily been market driven.

Emphasizing China's role in the region, he mentioned that China's manufacturing capabilities have shifted significantly from less sophisticated products to more sophisticated products. He mentioned that the equity markets were more mature than the bond markets in Asia and that the development of corporate bond markets is an important requirement. He also emphasized the importance of regional financial arrangements and of setting up solvency procedures for default. Finally, he emphasized joint research into possible loans in Asia.

DISCUSSION

Lessons Learned

Discussion on the lessons learned from the Asian Financial Crisis began with one participant's question about what the crisis-struck countries and the IMF have learnt from the Asian Financial Crisis. Another participant responded that most reforms of financial infrastructure have been incomplete and that most approaches have been nationally-oriented. There was also discussion about the ability and willingness of the Federal Reserve to bail countries out in case a similar crisis recurs. One participant also observed that lack of liquidity was one of the major problems at the time of the crisis and commented on China's role during the crisis, mentioning that the creation of an Asian Monetary Fund could have prevented the crisis in Indonesia and Korea.

Nature and implications of crisis

One participant commented on the role of politics in detonating the crisis. Following this, another participant stated that the Indonesian crisis was highly political, thus questioning the dominant focus on outside behaviour as the primary trigger for the crisis. He also mentioned that policy making largely depends on the set of information that the decision makers are looking at. Moreover, he highlighted that crisis management was conducted primarily by macro-economists, who were unable to coordinate macro and microeconomic changes. There was also discussion regarding poverty levels in the crisis-struck countries since 1998.

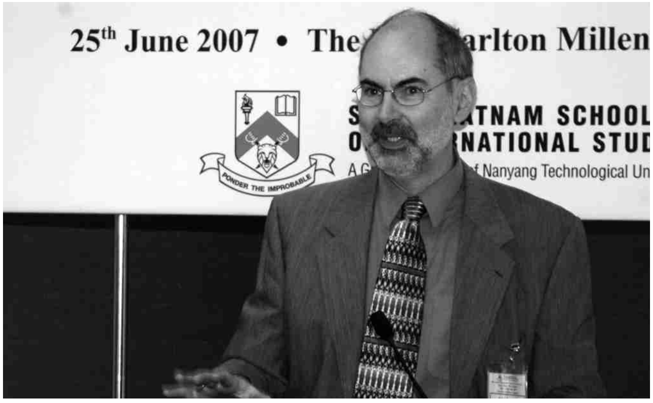
Monetary Policy and Exchange Rate Policy

One participant commented that speculation in the Yen is different from institutionalized hedge funds. He questioned how a crisis in the liquidity market can be controlled. Another participant responded that the Japanese, driven by interest rate differentials, are buying other currencies as well. He commented that the Bank of Japan should adjust interest rates as soon as possible, but in reality the Bank has been slow in doing so. There was also discussion regarding the diversification of Japanese savings from bank deposits into currency funds.

PANEL 1

WHAT HAPPENED IN 1997?

From Miracle to Misadventure: The Political Economy of the 1997-98 Crisis



JOHN RAVENHILL
VISITING PROFESSOR RSIS, NTU
PROFESSOR, RESEARCH SCHOOL OF PACIFIC & ASIAN STUDIES, AUSTRALIAN NATIONAL UNIVERSITY

Professor Ravenhill argued that it was a combination of crisis that undid East Asia in 1997-98. He discussed the various policy implications of the crisis and investigated whether it was the IMF's approach that exacerbated the crisis.

He mentioned that the reversal of economic growth was the product of mutually reinforcing currency and banking crisis. He questioned reasons behind fragility of the financial systems and highlighted problems in the private sector towards largely speculative investments, risky lending and non-performing loans. He also brought to attention the double mismatch; the currency and the maturity mismatch.

He mentioned that the trigger for the crisis was the realization by foreign lenders of the dire relationship between short-term debt and the available foreign exchange reserves. On the political economy of vulnerability, he discussed the flawed process of financial liberalization and highlighted its origins in rent-seeking interests, domestic forces strengthened by democratization, and the U.S Treasury and international financial institutions.

In conclusion, he mentioned that with the partial exception of Indonesia, the East Asian economies bounced back. He also commented that the Asian Financial Crisis was a combination of crises and a political-economic approach needs to be taken to understand what happened in 1997.

Thailand 10 years after 1997: Past Lessons for New Challenges

ATCHANA WAIQUAMDEE
DEPUTY BANK GOVERNOR, BANK OF THAILAND

In her talk, Ms Atchana Waiquamdee mentioned that the AFC was brought on by accumulated systemic vulnerabilities as well as basic policy inconsistencies. Some of these were persistent and large current account deficits and weak balance sheets of financial intermediaries primarily highlighting the weak governance at corporations and financial intermediaries and large scale maturity and currency mismatches on balance sheets.

Some of the other reasons for the crisis were the lack of correct financial flows data and forbearance of supervisory authority. There was also a strong thrust on high growth in Thailand with incentives to borrow for private investors. Highlighting the external private and public debt, she mentioned that half of the total debt in the early 90s was short-term.

Focusing on the current situation, she stressed the fact that strong growth and investment might not continue with the current interest rates. She concluded by mentioning the "challenge of abundance" faced by the small and open emerging economies and highlighted key challenges of the failure of uncovered interest parity and the size of carry trade (carry trade refers to currency carry trade, that is, investors borrow low-yielding currencies and lend high-yielding ones) and their implications on capital flows, exchange rate and monetary policy. Finally she commented on the challenge to strike a balance between financial market development and financial stability.

An Indonesian View of the Asian Crisis: Causes, Effects and Policies

SOEDRADJAD DJIWANDONO
PROFESSOR, RSIS, NTU AND
FORMER CENTRAL BANK GOVERNOR

Professor Soedradjad started by presenting a descriptive analysis of the crisis and its key causes. He mentioned that crisis-struck countries differed from each other in terms of macro fundamentals and vulnerability indicators prior to the contagion, the policy responses by respective governments and the IMF supported policy packages.

He discussed the economic as well as the socio-political effects of the crisis, the policy responses by the Government of Indonesia and the role of the IMF. He specifically mentioned the negative growth rates of GDP in 1998 in all crisis countries. While the GDP growth rates in countries have been between 4-6%, they are lower than the rates achieved in these countries before the crisis.

Professor Soedradjad Djiwandono also acknowledged the debate on determining the "normal pattern" of growth, i.e. whether the pre or post crisis is the normal pattern. He then explained the savings-glut hypothesis and the money-glut hypothesis to explain the global imbalances and concluded that global imbalances are not sustainable.

He also mentioned that despite the stability, both investment and exchange rates, have not reached the pre-crisis levels. The Indonesian experience, he mentioned, was comprised of both internal and external shocks. It demonstrated that a multi-faceted crisis arises from a contagious trigger which uncovers embedded structural weaknesses in the system and causes another contagion.

Finally he talked about regional cooperation and the key learning points from the crisis. He mentioned that there is a strong will among crisis-struck countries who have graduated from IMF programs, to avoid having to resort to IMF supports. In conclusion, he mentioned that good strategy and good policy are not enough to achieve our objectives of creating a stronger financial system and avoiding future crises. The process of how to achieve these objectives is very crucial.

DISCUSSION

Moderator: Eisuke Sakakibara

Indonesian crisis of politics

One participant mentioned that the Indonesian crisis was a confusion generated by two political groups on policy implementation. Another participant mentioned that Indonesia was a new player and that they followed their foreign counterparts. He also mentioned that the technocrats have been playing games with Suharto for years. The crisis therefore was very political in nature. Another participant mentioned that some elements of the Indonesian technocrats wanted the IMF conditionality but Suharto's people resisted that. One participant remarked that the Indonesian people criticized the IMF for everything but they did not realize that the IMF could not have helped.

Lack of actionable information

A participant asked if the outsiders did not see the crisis coming and also about the vulnerability of the banking institutions that the insiders could see and outsiders did not. A participant mentioned that there was little information or data available on private sector's foreign debt. Decision making was thus hindered. He also mentioned that the data on capital flows, inter-company loans and bond markets is also increasing rapidly and that stock-taking on a continuous basis is important.

Repetition of mistakes?

One participant mentioned that the players are different now, with new things and possibilities. There is more credit transparency now. He also mentioned that after the crisis we did not look at the process to get there but we just saw the end outcome of the new development paradigm. Privatization became cronyism at the time of the crisis. He also mentioned that the rules of the game are different now and that the parliaments are powerful now and that most countries are unlikely to go to the IMF for advice.

Another participant questioned whether Indonesia and Thailand would approach the IMF should another crisis occur. A participant responded that applying to the IMF program was a painful experience. The participant questioned why devaluation was not resorted to in the first instance and remarked that because of the absence of data on foreign debt totals, there was little understanding on the extent of debt to devalue.

Crisis implications

A participant mentioned that the Bank of Thailand lost some control with the dollar appreciating and pegging to the dollar suddenly became a liability. Another participant remarked about the poverty levels and asked if they have changed at all. He also mentioned that growth has restored but poverty levels have in fact not gone down subsequently. He commented that the people handling the crisis were macroeconomists and that they could not establish a connection between macro economic indicators and corporate finance. One of the participants asked about crony capitalism in the crisis countries and another questioned whether the authorities really understood the nature of IMF conditionality.

Comparison in perspective

One participant remarked that capital flight did not happen in Thailand and Korea because domestically there was strong support for the currencies. Capital flight happened only in Indonesia. In Thailand, the monks donated gold and in Korea there was strong domestic financial support. In Indonesia, most money went off to Singapore as wealthy people withdrew their money from the country.

TAKATOSHI ITO
PROFESSOR, FACULTY OF ECONOMICS AND GRADUATE SCHOOL OF PUBLIC POLICY, UNIVERSITY OF TOKYO

Professor Ito mentioned that the Asian crisis was a liquidity crisis rather than a crisis of solvency. He drew comparisons between the Asian Financial Crisis (AFC) and the Mexican crisis and explained that the AFC was a slow and brewing crisis as compared to the Mexican crisis and that there was lack of warning and time to respond to in case of the AFC. He mentioned that the Thai package of USD 17.2 billion was too small for the problem and that it wasn't a confidence building measure.

He also mentioned that the IMF arrived at the issue of corporate debt for Indonesia a bit too late. Professor Ito questioned the differential treatment from the U.S; adopting a soft policy stance on Brazil as compared to Asia. He highlighted the political agenda behind U.S assistance and mentioned that Korea was given more importance and better treatment than Indonesia because Korea was on its way to becoming a democracy.

Discussions during and after Professor Ito's talk revolved around the policies pursued by the US and the IMF in terms of crisis management in 1997/98. Several pieces of new information regarding crisis management and the post-crisis situation were revealed during this discussion. One participant highlighted that while it is generally true that the IMF and World Bank are instruments of US foreign policy, the scenario at the time of the Asian Financial Crisis was different. He illustrated this by noting that the exact amount of support extended through the IMF program support package for the crisis-struck countries was not set by the IMF negotiating team. He probed into the issue further by putting forward questions about who set the exact amount of support, and why a figure of $17.2 billion was decided upon. One participant responded that of the total amount of $17.2 billion, IMF decided to give only $4 billion, while the rest of the $13 billion was to be arranged as bilateral support/aid from the countries on the IMF Board. With regards to why the amount was set at $17.2 billion, he stated that poor information did not allow Board members to gauge that the actual amount required for crisis management was $23 billion and not $17.2 billion. However, discussion between the participants revealed new information about how the IMF team got to know about the exact amount required a week before the actual negotiations began, hence implying that the required amount of $ 23 billion could have been negotiated. Furthering this point, one participant noted that the IMF did not inform the Japanese government about the exact amount of support that crisis-struck countries required. He stated that if the IMF had not been as secretive, the Japanese government would have been able and willing to expand the size of the support package from $ 17.2 billion to $ 23 billion.

PANEL 2

RESPONDING TO THE CRISIS: LESSONS LEARNED

What Lessons Have Affected Countries Learned

KHOR HOE EE
ASSISTANT MANAGING DIRECTOR, ECONOMICS POLICY DEPARTMENT, MONETARY AUTHORITY OF SINGAPORE

Mr Ee mentioned that most Asian currencies have not fully recovered from the 1997 crisis. While the real GDP growth in Asia has recovered, it is still lower than in the 1990s. Real fixed investments remain below 1997 levels, reflecting the slump in investment to GDP ratios, except in China.

In terms of the changes since 1997-98, Mr Ee highlighted the improved credibility of policies and mentioned that some countries have switched to inflation targeting (IT), implying greater transparency and accountability. Other improvements are greater current account surpluses, reduced external vulnerabilities, and a shift in capital flows towards portfolio rather than bank flows.

Nevertheless, certain weaknesses remain. He stated that the resurgence of large scale capital inflows and the current trend of keeping currencies undervalued would eventually lead to financial vulnerability. He also mentioned that excessive reliance on external demand would lead to unsustainable growth.

Obstacles to Implementing Reforms

JOMO K. S.
ASSISTANT SECRETARY GENERAL, UNITED NATIONS

Dr Jomo started his presentation by mentioning that the ideological implications and political differences involved have complicated the possibility of drawing shared lessons from the crisis. He also mentioned that the increased growth in most developing countries in the period since 2001 have also undermined the possibility of far-reaching reforms following the experience.

He considered various views of the origin of the crisis, and its development and spread through the region (referred to as contagion). All this was placed against the larger context of policy advocacy for financial liberalization since the late 1980s.

He focused on the consequences of financial liberalization in the region and argued that the crisis was of a new type and was somewhat different from earlier currency and financial crises. In particular, he emphasized the implications of easily reversible capital flows. He also mentioned the nature and implications of IMF rescue programs and conditionalities, as well as policies favoured by international, as distinct from domestic, financial communities.

Finally he suggested several urgent areas for international financial system reform from a development perspective, including the provision of development finance and the restoration of national economic authority and autonomy.

The Perspective of the Private Sector

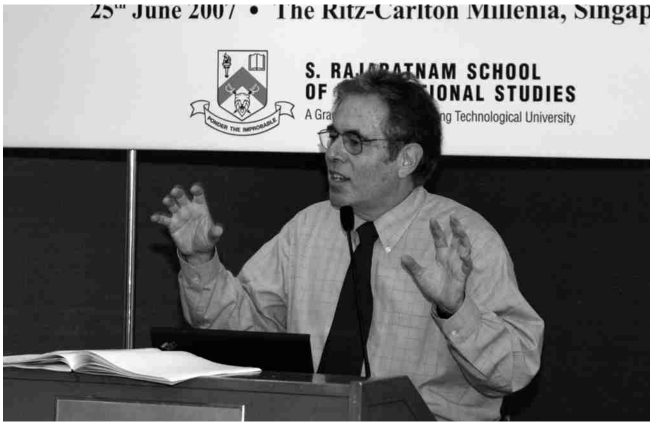
MANU BHASKARAN
PARTNER AND MEMBER OF THE BOARD,
CENTENNIAL GROUP INC.

Mr Bhaskaran gave a private sector perspective on the crisis by talking about the causes of the crisis, and the key changes in Asia and in the international financial architecture since then. He mentioned that Asian policymakers have taken substantial steps to reform the financial sector. While the resulting improvements can prevent recurrence of a crisis similar to the Asian Financial Crisis of 1997-98, they may not be sufficient to prevent painful disruptions to economic activity in the future.

He mentioned that the international economic environment has seen encouraging improvements in growth momentum and stability but it has not changed fundamentally enough to prevent a recurrence of disruptive shocks to emerging market economies. The international financial architecture has yet to be refashioned to prevent irrational investor behavior that could precipitate substantial disruption to the global economy.

Sufficient lessons have thus not been learnt and we would not be surprised if another crisis or period of material dislocations recurred in Asia or elsewhere.

Politics and Corporate Accountability



PETER GOUREVITCH
PROFESSOR, INTERNATIONAL RELATIONS/PACIFIC STUDIES SCHOOL, UC SAN DIEGO

Professor Gourevitch argued that the Asian Financial Crisis intensified the debate on the appropriate model of economic development, public policy and politics. He stated that the crisis led to the emergence of the US diffuse-shareholder model as the gold standard by a number of international organizations.

Professor Gourevitch compared the patterns of shareholder concentration and the strength of Minority Shareholder Protection in East Asia with the rest of the world. He exhibited that modest change appears to be taking place in East Asian corporate governance, and then identified the channels of such a change. He illustrated that in the context of emerging markets, the non-legal and regulatory processes are particularly important for understanding governance outcomes. This makes it difficult to obtain cross national tests, as institutions vary according to local conditions.

Professor Gourevitch stated that the policy prescriptions against crony capitalism vis-à-vis the Washington Consensus assume uniformity of conditions. Hence, obligating countries to adopt Minority Shareholder Protection rules regardless of local circumstances is ineffective, as these countries lack the structures to use them efficiently. He suggested that block-holding makes more economic sense in economies with weak legal regimes.

DISCUSSION

Moderator: John Ravenhill

Global Imbalances

One participant commented on the issue of growing global imbalance and raised questions regarding the IMF's role in containing such a global imbalance. Following this, there was discussion pertaining to China's contribution in this growing imbalance and the high rate of savings in China. There was also discussion on the new scope of IMF surveillance activities, which encompass examination of exchange rate alignment, and China's response to this new modality of IMF Surveillance. Also, one participant was of the view that the US should concentrate on furthering its commitments to reducing its deficits instead of focusing on reducing other countries' surpluses.

Savings, Investment and Growth

The discussion on investment began with one participant's comment on the low investment to GDP ratio in ASEAN countries, particularly since the Crisis. Some participants were of the view that a low investment/GDP ratio is a natural outcome of the growth process. There was also discussion regarding the nature of investment in East Asian countries, as some participants voiced their worries about greater investment in services as opposed to fixed investment.

One of the participants drew attention to the construction boom in East and Southeast Asia. He commented that the upward trend in the property cycle, coupled with greater investment in machinery and transport will boost the Investment/GDP ratio.

There was a detailed discussion on what measures can be taken to increase investment levels. Development of attractive and bankable projects, improvement of corporate governance systems and re-channeling of funds away from short term lending towards longer term projects were among the proposed recommendations.

DAY 2

PANEL 3

ARE WE PREPARED FOR FUTURE PROBLEMS?

Potential Future Problems and National Preparedness

MASAHIRO KAWAI
DEAN OF ASIAN DEVELOPMENT BANK INSTITUTE

Mr Kawai argued that economic recovery in the Asian region since the Crisis of 1997/98 has been V-shaped, facilitated by intra-regional trade linkages. He highlighted that post-crisis integration in East Asia has been market driven, leading to an increase in FDI inflows and total and intra-regional trade shares. Financial integration has also progressed further in East Asia through financial market and capital account liberalization.

However, the rise of China and India pose significant challenges to East Asia in terms of heightened competition. Moreover, China's macroeconomic management is a new issue. He stressed the need for greater flexibility of RMB for a more prudent macroeconomic and financial sector management.

Mr Kawai also brought issues of global payments imbalances, economic overheating in Asia, rise in protectionism in North America, hard-landing of the US and Chinese economies and geopolitical risks in Asia to the limelight. He emphasized the importance of regional economic surveillance, reserve pooling through the Chiang Mai initiative, Asian bond market development and regional FTAs. He also noted that there was a need for regional savings to be directed towards regional investment.

Mr Kawai concluded by saying that while Asia is fast recovering from the 1997/98 crisis and is once again the most dynamic growth center of the world economy, there are significant challenges that the region faces. These challenges, he stated, can be overcome through better domestic economic policies and greater regional cooperation.

Multilateral and Regional Preparedness

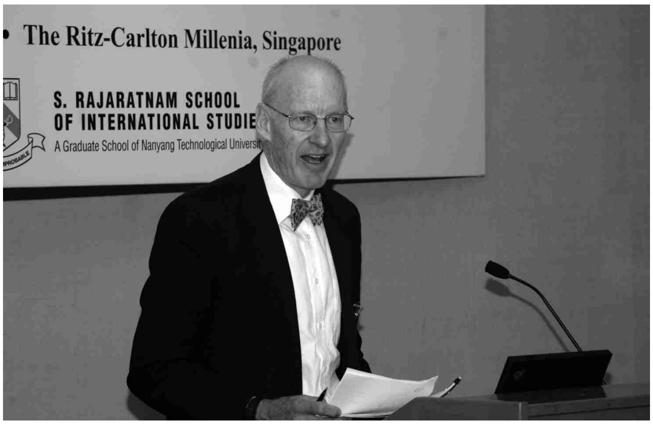
PRADUMNA RANA
SENIOR ADVISOR, OFFICE OF REGIONAL ECONOMIC INTEGRATION, ASIAN DEVELOPMENT BANK

Dr Rana focused on the multilateral preparedness for future crises in East Asia, with special emphasis on regional efforts. He identified a change in standards and codes pertaining to policy transparency, financial sector regulation and supervision and market integrity as a major step taken to reform the international financial architecture. In addition, improved data transparency through stronger data dissemination standards, more systematic and inclusive surveillance activities to ensure financial system soundness and the establishment of new financing facilities are also important steps taken in this direction. He also noted that regional cooperation in East Asia was also on the increase.

Examining whether multilateral and individual preparedness has improved East Asia's resilience to a capital account crisis, Dr Rana noted that East Asia has made considerable progress in this direction. However, vulnerabilities remain in East Asia. He observed that the banking sector in East Asia remains vulnerable to an increasing share of non-performing loans, as weak loan quality controls continue to plague the banking sector. Moreover, credit rating agencies' assessment of financial strength in Asia is gloomy.

In conclusion, Dr Rana stated that business cycles in East Asia are starting to become synchronized due to increasing regional trade intensity. He noted that a multi-track system, encompassing trade and finance/money, is desirable for the region. He stated that if the political will in the East Asian region is not strong enough to adopt a European approach towards currency coordination, a parallel currency approach involving the issuance of an Asian Currency Unit in the medium-term should be considered.

The IMF's Preparedness

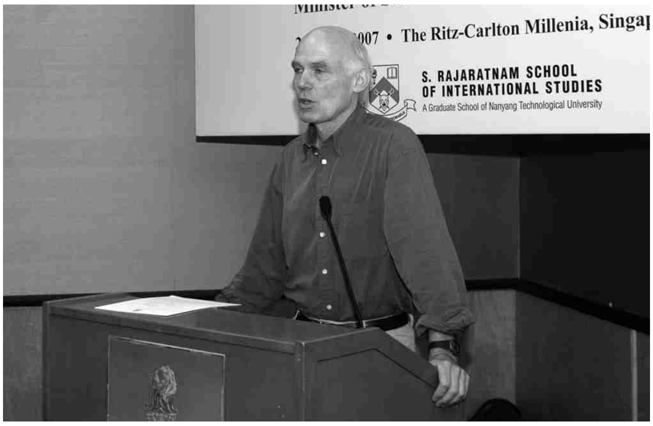


STEPHEN GRENVILLE
ADJUNCT PROFESSOR, CRAWFORD SCHOOL OF ECONOMICS AND GOVERNMENT, AUSTRALIAN NATIONAL UNIVERSITY

Professor Grenville threw light on the IMF's preparedness for a future financial crisis. He observed that while the current scenario reveals little evidence supporting the likelihood of a financial crisis in the near future, this conjecture is neither sensible nor sustainable. He noted that the financial sector in East Asian countries continues to remain fragile due to a shortage of commercial information, damaged balance sheets, poorly defined property rights and weak corporate governance structures. He highlighted the core vulnerabilities that could emerge in East Asia as net capital flows in from mature economies to emerging economies in the region, hence signaling the return of the old problem of volatile foreign capital. He mentioned that emerging financial markets are still small compared with international portfolio flows, and information continues to remain thin and poorly understood by foreigners. He also noted that high interest rates will not provide much of a defense mechanism. Therefore, the IMF is under the wrong impression that floating exchange rates have largely fixed the problem of capital flight.

Professor Grenville presented several possible responses to a future crisis, and highlighted the effectiveness of each response. He also observed the support granted to each response by the IMF. In conclusion, he noted that while the IMF has been sidelined for now as a result of its relative failure in 1997/98 and the emphasis on the Chiang Mai Initiative, the need for institutions which govern and regulate international capital flows still exists.

The "Standards-Surveillance-Compliance" (SSC) System of Global Finance Regulation: How it is Working, and Why Developing Countries Should be Worried



ROBERT WADE
PROFESSOR OF POLITICAL ECONOMY AND DEVELOPMENT AT THE LONDON SCHOOL OF ECONOMICS

Professor Wade based his presentation on the Standards-Surveillance-Compliance (SSC) system of global finance regulation. He observed that after several major financial crises of the 1990s, High Command of World Finance (namely US Treasury, US Federal Reserve, G7/G8, IMF, Bank for International Settlements and the World Bank) reinvigorated the development of universal standards of best practice in such areas as data dissemination, bank supervision, corporate governance and financial accounting. Professor Wade referred to this system as the SSC system.

He highlighted that the SSC system constitutes a shift in High Command consensus from the earlier "liberalize-the-market" motto of the so-called Washington Consensus to "standardize-the-(global) market" motto, pointing towards a Post Washington Consensus. Professor Wade noted that SSC system uses standards which are rooted in the Anglo-American, liberal market economy type of capitalism. Thus, the SSC system shrinks the scope for a developmental role of the state, of the kind seen earlier in East Asia. Moreover, he noted, this system may increase the instability of international financial markets and disadvantage developing country banks relative to industrial country banks, hence leading to a redistribution of world income upwards into developed countries.

Thus, in reality the SSC system curbs the liberal value of national choice of policy framework by attempting to inject a single political economy model from above. Also, by nearly excluding developing countries from the standards-setting forum, it curbs the liberal value of democratic participation. Professor Wade stated that the crisis-affected countries of East and Southeast Asia have not complied with these standards.

In conclusion, Professor Wade questioned the effectiveness of the SSC system in reducing the frequency and severity of financial crises, and made some proposals for doable reforms to improve legitimacy and effectiveness.

DISCUSSION

Moderator: Lim Chong Yah

ALBERT WINSEMIUS CHAIR PROFESSOR OF THE SCHOOL
OF HUMANITIES AND SOCIAL SCIENCES, NTU

Policy Coordination

Most participants commented that the misalignment of exchange rates will threaten the financial stability of the region, hence making monetary policy coordination a pressing need. Some participants remarked that monetary and exchange rate policy coordination have remained a problematic domain because Central Banks in ASEAN countries consider the independence of the Central Bank to be sacred and because the perceived needs of individual countries remain different. One participant, however, remarked that the absence of a formal mechanism of policy coordination did not imply that no coordination existed. There was also discussion on identifying common players who can be the key drivers behind the coordination process.

Future Crisis

On the possibility of a future financial crisis, one participant commented that the banking sector in Asia seemed relatively complacent, hence making the financial sector in the East Asian region prone to fragility. Several participants also noted that understanding the behavior of institutional investors was important to determine the source of a potential future crisis. Most participants agreed on the fact that a future crisis will not be a result of the lack of reserves. There was also discussion about the vulnerability of the export sector and the potential threat of a rise in protectionism in the US.

Reserve Pooling

One participant commented that in a crisis situation, centralized reserve pooling is not a viable source of finance. Another participant seconded this opinion by stating that reserve pooling is an effective strategy only if a single country is hit by a financial crisis. However, some participants commented that reserve pooling allowed for greater economies of scale, as each individual country had to set aside lower amount of reserves for crisis situations. Moreover, reserve pooling has an enhancement effect on financial and monetary policy coordination/cooperation.

HUBERT NEISS
CHAIRMAN ASIA, DEUTSCHE BANK

Mr Neiss presented the closing remarks for the conference, summarizing the discussions and highlighting some key questions that the conference addressed. More importantly, he shed light on some key issues regarding policy mistakes that were made by the IMF at the time of the crisis. In this regard, he commented that IMF's policy prescription of fiscal tightening was made primarily due to the urgency and a poor understanding of the situation on the part of the IMF. He added that a substantial increase in interest rates was suggested as there was no other means to control the decline in exchange rates. However, the increase in interest rates was not rapid, hence dampening the overall effectiveness of this policy. He also noted that structural reform, which was one of the main policy prescriptions of the IMF came as a distraction from crisis management. Nevertheless, he stated that these reforms were necessary to restore market confidence, and that they have been beneficial for crisis-struck economies in the long run. Moreover, corporate restructuring came too late due to technical and political difficulties and a poor understanding of the macro impact of corporate balance sheets. Bank restructuring, he noted, was also flawed, especially in the case of Indonesia. Mr. Neiss highlighted that the support package provided by the IMF was small, particularly in the case of Thailand. He commented that capital controls would have been an effective solution at the time of the crisis, but he was doubtful of the crisis-struck countries' institutional capability to enforce these controls.

Nevertheless, the governments of the crisis-struck economies, he noted, also made mistakes, particularly by not revealing the true extent of the crisis. In addition, ADB and World Bank also had a share of mistakes. Finally, the larger international community was also responsible for the poor response to the crisis, as IMF member countries were the ones deciding on the size of the package offered to crisis-struck economies by the IMF.

Highlighting the lessons learnt from the crisis in terms of policy prescriptions, Mr Neiss noted that a relaxed fiscal policy, upfront declaration of a blanket guarantee, orderly bank closure and structural reforms and an expansion of social safety nets should form the key elements of a crisis management policy. He emphasized that the IMF has learnt that it has to be flexible in its policy response. With regards to individual countries, he recommended that Asian countries should keep a high level of reserves, concentrate on a process resolution of banking problems, monitor short-term capital flows and maintain macro-stability. He also emphasized the importance of better regional cooperation and noted that since the Asian Financial Crisis, regional initiatives have been on an upward trajectory. However, while speaking of the Chiang Mai Initiative (CMI), he commented that the fact that CMI is tied to an IMF agreement or disbursement of funds defeats the purpose of reserve pooling.

In conclusion, he suggested that Asian economies should be prepared for the unexpected. He stated that while another crisis is unlikely, the possibility cannot be ignored. The source or trigger for a future crisis, he noted, can potentially be the increasing global imbalance, an oil shortage or a political catastrophe.

Rapporteurs:
Barkha Shah
Prakhar Sharma

PROGRAMME

24th June 2007, Sunday

All Day — Arrival and check-in for foreign participants

19:00 — Welcome Reception for participants
(by invitation only)
Venue: Millenia 6, Level 2,
The Ritz-Carlton Hotel

25th June 2007, Monday

Conference Venue: The Millenia 2 (Level 2)

08:30 — Registration

09:00 — WELCOME REMARKS
Ambassador Barry Desker
Dean, S. Rajaratnam School of International Studies, Nanyang Technological University

OPENING ADDRESS
Mrs Lim Hwee Hua
Minister of State for Finance and Transport

09:20 — Coffee Break

09:30 — KEYNOTE ADDRESS
Eisuke Sakakibara
Professor and Director of the Institute for Indian Economic Studies,
Waseda University

10:30 — PANEL 1
WHAT HAPPENED IN 1997?

From Miracle to Misadventure:
The Political Economy of the 1997-98 Crises
John Ravenhill
Visiting Professor, RSIS, NTU
Professor, Research School of Pacific & Asian Studies,
Australian National University

Thailand
Atchana Waiquamdee
Deputy Bank Governor, Bank of Thailand

Indonesia
Soedradjad Djiwandono
Former Central Bank Governor and Professor, RSIS, NTU

Moderator: Eisuke Sakakibara
Professor and Director of the Institute for Indian Economic Studies,
Waseda University

12:00 — Lunch
Venue: Snappers Restaurant,
Level 1, The Ritz-Carlton Hotel

13:15 — DISTINGUISHED SPEAKER
Takatoshi Ito
Professor, Faculty of Economics and Graduate School of Public Policy,
University of Tokyo

14:15 — PANEL 2
RESPONDING TO THE CRISIS:
LESSONS LEARNED

What Lessons Have Affected Countries Learned?
Khor Hoe Ee
Assistant Managing Director,
Economics Policy Department,
Monetary Authority of Singapore

Obstacles to Implementing Lessons from the 1997-1998 East Asian Crises
Jomo K. Sundaram
Assistant Secretary General, United Nations

Lessons Learnt:
The Private Sector Perspective
Manu Bhaskaran
Partner and Member of the Board,
Centennial Group Inc.

Politics and Corporate Accountability
Peter Gourevitch
Professor, International Relations/Pacific Studies School, UC San Diego

Moderator: John Ravenhill
Visiting Professor, RSIS, NTU
Professor, Research School of Pacific & Asian Studies, Australian National University

17:00 — End of Session

19:30 — Welcome Dinner (by invitation only)
Venue: Jumbo Seafood Pte Ltd,
East Coast Seafood Centre

PROGRAMME

26th June 2007, Tuesday

09:00 PANEL 3
ARE WE PREPARED FOR
FUTURE PROBLEMS?

Potential Future Problems and
National Preparedness
Masahiro Kawai
Dean, Asian Development Bank Institute

Multilateral Preparedness for Future
Crisis in East Asia with Special Emphasis
on Regional Efforts
Pradumna B. Rana
Senior Advisor, Office of Regional Economic
Integration, Asian Development Bank

Ten Years After the Asian Crisis:
Is the IMF Ready for "Next Time"?
Stephen Grenville
Adjunct Professor, The Crawford School of
Economics and Government,
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The New (Post Asia Crisis) System Of
Global Financial Regulation And
Why Developing Countries
Should Be Worried About It
Robert Wade
Professor of Political Economy and
Development, London School of Economics

Moderator: Lim Chong Yah
Albert Winsemius Chair Professor of
the School of Humanities and Social
Sciences, NTU

10:30 Coffee Break

10:50 Resume Discussion

11:30 CLOSING REMARKS
Hubert Neiss
Chairman, Asia, Deutsche Bank

12:00 Lunch
Venue: Greenhouse Restaurant,
Level 3, The Ritz-Carlton Hotel

CONFERENCE END

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ABOUT RSIS

The S. Rajaratnam School of International Studies (RSIS) was established in January 2007 as an autonomous School within the Nanyang Technological University. RSIS's mission is to be a leading research and graduate teaching institution in strategic and international affairs in the Asia Pacific. To accomplish this mission, it will:

- Provide a rigorous professional graduate education in international affairs with a strong practical and area emphasis
- Conduct policy-relevant research in national security, defence and strategic studies, diplomacy and international relations
- Collaborate with like-minded schools of international affairs to form a global network of excellence

Graduate Training in International Affairs

RSIS offers an exacting graduate education in international affairs, taught by an international faculty of leading thinkers and practitioners. The teaching programme consists of the Master of Science (MSc) degrees in Strategic Studies, International Relations, International Political Economy, and Asian Studies as well as an MBA in International Studies taught jointly with the Nanyang Business School. The graduate teaching is distinguished by their focus on the Asia Pacific, the professional practice of international affairs, and the cultivation of academic depth. Over 150 students, the majority from abroad, are enrolled with the School. A small and select Ph.D. programme caters to advanced students whose interests match those of specific faculty members.

Research

RSIS research is conducted by five constituent Institutes and Centres: the Institute of Defence and Strategic Studies (IDSS, founded 1996), the International Centre for Political Violence and Terrorism Research (ICPVTR, 2002), the Centre of Excellence for National Security (CENS, 2006), the Centre for the Advanced Study of Regionalism and Multilateralism (CASRM, 2007); and the Consortium of Non-Traditional Security Studies in ASIA (NTS-Asia, 2007). The focus of research is on issues relating to the security and stability of the Asia-Pacific region and their implications for Singapore and other countries in the region. The S. Rajaratnam Professorship in Strategic Studies brings distinguished scholars and practitioners to participate in the work of the Institute. Previous holders of the Chair include Professors Stephen Walt, Jack Snyder, Wang Jisi, Alastair Iain Johnston, John Mearsheimer, Raja Mohan, and Rosemary Foot.

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Collaboration with other professional Schools of international affairs to form a global network of excellence is a RSIS priority. RSIS will initiate links with other like-minded schools so as to enrich its research and teaching activities as well as adopt the best practices of successful schools.

S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES

A Graduate School of Nanyang Technological University

PONDER THE IMPROBABLE

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