

Expected Roles of the Asian Financial Sector in a Changing Environment

**A Keynote Speech
delivered by**

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at

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(Greetings)

Ladies and Gentlemen,

It is my great pleasure to see here this evening so many Asian financiers and experts in related fields as you round off the successful "Sixth Meeting of the Asian Program".

I should like to express my special thanks to *Charles Dallara*, Managing Director of *the Institute of International Finance* and to all those involved for inviting me to join you tonight.

This program has covered many of the major issues for the Asian region such as mergers and acquisitions between financial institutions, developing local and regional bond markets, and banking reform in China.

It also has provided a valuable opportunity for earnest debate and the exchange of opinions between many of the top executives of renowned financial institutions and leading financial experts in the Asian area.

(A New Standing for the Asian Economy)

When we look back, we realize that over the last half-century the Asian economy has shown dynamic growth that is without historical parallel, bringing it to today's pivotal position in the global economy.

Japan joined the ranks of the advanced countries some time ago, and Korea too was able to shake off the destruction and utter poverty of the Korean War to become a member of the OECD.

Once again China is maintaining very rapid growth that is making it a global superpower, with India not far behind.

A very brisk picture also strikes us when we look at the ASEAN countries, notably Thailand, Malaysia and Vietnam.

Now sixteen Asian countries occupy a high place in the world economy, accounting for 22 percent of global GDP and 25 percent of global trade. These are the three North East Asian countries, Korea, China and Japan, and the 10 ASEAN countries, along with Taiwan, Hong Kong and India.

In making this great leap in economic development, these Asian countries have accumulated foreign exchange reserves on a vast scale. In fact, at the end of last year, they together held foreign exchange reserves of more than 1.9 trillion dollars.

(Changes in the Asian Financial Environment)

But despite this successful growth of the real economy in Asia, structural fragility brought upon us the experience of the Asian currency crisis in the latter half of the 1990's. This acted as a spur to all our countries, forcing them into structural reform, particularly of the financial sector.

In Korea, the soundness of the financial sector has been greatly heightened through structural adjustment. It includes the exit of failed financial institutions, the recapitalization of those still viable along with the clearing of their non-performing loans, and the inducement of foreign capital and advanced management techniques.

In fact almost all our Asian countries have been devoting great efforts to comply more closely, by way of structural reform and openness, with global standards for every sector of finance and the economy.

What is more, financial cooperation continues to be strengthened among the countries of the Asian region.

What are known as the ASEAN + 3 countries, working together closely with APEC and the ADB, are stepping up their cooperation. It aims at developing and utilizing a joint monitoring and early warning system on in- and out-flows of short-term capital, promoting local and regional bond markets, and expanding free-trade agreements.

Turning to central banks, a total of 15 bilateral swap agreements have been entered into under the Chiang Mai Initiative for a value of 33.5 billion dollars. Also an investment fund was established in June 2003 for regional bonds denominated in US dollar, and the finishing touches are now being put to the setting-up of a fund for investment in bonds denominated in regional currencies.

Systematic financial cooperation is brisk through central banking organizations such as EMEAP, the Executives' Meeting of East Asia and Pacific Central Banks, and SEACEN, South East Asian Central Banks. There is, notably, substantial policy cooperation between the central banks of Korea, China and Japan by way, for example, of regular meetings of their governors.

We can fairly say that the financial environment of the Asian region has seen great improvement compared with the past, thanks to this structural adjustment in every country and the strengthening of cooperation among them.

It does not stop there. The financial environment will continue to be improved in future, owing to the development of competition to build a financial hub in their own country that now involves not only Hong Kong and Singapore but also Korea, China and Japan.

(Expected Roles of the Financial Sector)

Along with all these beneficial changes in the financial environment, there are great expectations for the financial sector within Asia.

Firstly, with the rapid development of the real economy, there is fast growing demand for financial services in relation to trade, direct and portfolio investment, the management of foreign exchange holdings and so forth. The financial sector is anticipated to move swiftly to fully satisfy these financial needs, taking an extremely pro-active business approach.

We also very much hope that financial institutions will play a major role in transforming the surplus funds of the region into long-term investments within the region by taking an active part in the drive to build up the Asian bond markets.

This could contribute greatly to accelerating the economic development and broadening the common prosperity of the Asian region, by efficiently distributing funds from capital surplus areas of Asia to those that have a demand for funds.

This said, the development of the Asian financial sector will itself be further accelerated if the regional financial institutions and renowned global players set up a direct presence throughout the region to deliver these financial services.

(Closing Remarks)

Ladies and gentlemen,

I firmly believe that all of you gathered here today have a deeper understanding and more acute discernment than most, concerning the immense diversity and dynamic energy of Asia's history, culture and phases of economic development.

I should like to ask you now to play a positive part in transforming diversity into mutual complementarity and bringing out all the possible dynamic energies. Please be unsparing with your advice and cooperation to the policy authorities of individual countries and the international organizations.

In closing, I trust every one of you will enjoy a delightful time this evening and have a safe and peaceful homeward journey.

Thank you.