

**Remarks by Dr. Tarisa Watanagase  
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On Combating Global Financial Crisis:  
Role of International Cooperation  
at the HKMA Distinguished Lecture  
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Governor Draghi, Governor Yam,  
Distinguished Guests,  
Ladies and Gentlemen,

I am honored and delighted to be here among this gathering of distinguished policymakers, financial experts and academia, at this year's HKMA Distinguished Lecture and would like to thank Governor Yam for the kind invitation. This lecture truly provides an excellent opportunity for us to share our views on the topical issues that are at the center of international financial community.

Ten years ago, we had the Asian financial crisis. In Thailand, there were plenty of discussions about the causes and remedies of the crisis, some of which still continued until these days.

To me, the Thai crisis had 4 main causes, namely, we had weaknesses in the macroeconomic management leading up to bubbles, lax supervision, excessive risk taking of both the financial sector and the private sector in general, and the inadequate legal and information infrastructure. The crisis we are facing now has many surprises as pointed out by Governor Draghi, but I also see plenty of similarities in the underlying root causes. Because of the

crisis's global scale and its severity, this time around we have seen unprecedented efforts taking at both the national, regional and international levels.

Today, one decade after the Asian financial crisis, emerging markets look less vulnerable to financial disturbances. Emerging markets, in particular in Asia, are learning to live with heightened uncertainty in the world where the extent and the whereabouts of benefits from financial globalization to promote growth and development while ensuring our economic and financial stability. This, of course, necessitates that we have to be very focused on risk management.

Ladies and Gentlemen,

Asian economies have come a long way since 1997 in promoting economic and financial resiliency. We see a region-wide move toward a more flexible exchange rate regime, with a disciplined framework in the conduct of monetary and fiscal policies.

As for the financial sector, the framework of policy has moved toward risk-based supervision, to an adherence to international standards, and to the undertakings of formal financial sector assessments under Financial Sector Assessment Program of FSAP. The macroeconomic policies also become more flexible, yet proactive, in dealing with changes in the market conditions and practices. When necessary, a tradition fiscal-monetary policy mix

has been augmented by appropriate prudential measures of financial institutions.

More importantly, legal and information infrastructure, including credit bureaus, has also been put in place to strengthen the foundation for financial system capacity for crisis prevention and resolution.

These intensive reforms and institution building during the past decade may make it less likely that financial turbulence will trigger a sharp and broad-based dent to real economic outcomes, especially, since there is no significant build-up of sectoral imbalances in the region. But, challenges remain as we have learnt that the key pressure points that can lead to difficulties for small-open economies can be externally-induced, particularly when we do not know if we are still caught in the eye of the financial storm or whether the turbulence has ceased.

Let me now turn the focus of my discussion to the need for closer cooperation as we all face challenges on how to combat the global financial crisis.

The ongoing global financial crisis is not dissimilar to other crises as it is and will be followed by intensive reforms at international level. It also highlights that international cooperation remains important and necessary in maintaining global financial stability. In fact, it has become more and more important given globalization process, which makes us better interconnected.

However, we might have taken it for granted that international cooperation is the first best solution and could solve global crisis. We have all learnt that in a number of occasions, when a solution is needed, good implementation comes too little too late.

Taking the International Monetary Fund's or the (IMF) Short-term Liquidity Facility as an example, this new facility is somewhat similar to the swap lines extended among central banks to fellow members that do not call for typical IMF-supported adjustment programs. Emerging markets have been proponents of this facility for several years, but the IMF has previously been reluctant to endorse it due to fear of moral hazard. It is ironic that only when problems in advanced economies led to contagion elsewhere and large number of central banks entered into such swap agreements with the Federal Reserve, did the IMF agree to such an instrument.

This also reconfirms the need for greater voice and representation of emerging markets in important international financial institutions (IFIs) as highlighted in the recent G-20 Summit Declaration. While the reform is underway under the IMF, it is only with hope that other fora, including, the FSF will take the issue into consideration more seriously.

Let me elaborate further on the importance of having emerging markets participated in the systemically important international fora.

I think you all agree at this advanced economies or emerging markets are all prone to sectoral imbalances, which, if left

unchecked, can lead to a full-blown crisis, anywhere, any time, when the bubbles burst. The impact of a crisis in an advanced, systemically important country can be much broader and deeper, creating a larger scale of world-wide externality.

Emerging markets, unlike others, have had our share of coping with new challenges brought on by this phenomenon as well as those created by us one decade ago. It is, therefore, not only the responsibility of advanced countries to be in charge of global surveillance but also the responsibility of emerging markets to share our views and experiences of how to reform ourselves to be better prepared for greater uncertainty.

Against this background, this calls into question whether the surveillance mechanisms available at the moment and the role played by emerging markets in international cooperation are adequate in ensuring international financial stability, the essence of the mission of IFIs.

It is therefore in times of crisis that the value of the international cooperation be measured and the voice and representation of emerging markets be heard IFIs. The unprecedented events of the past months present a historic opportunity for the international bodies to rise to the challenge. The time has come for them to be more proactive and become truly global institutions.

Apart from strengthening the roles of IFIs, I believe that regional cooperation can play an important role in supplementing

both national and global responses. I'd like to raise two observations on this issue. First, the global financial crisis highlights the need to put in place an effective regional surveillance mechanism that can detect weakness early on. International financial institutions will remain useful for global surveillance and financing balance of payments need when necessary. However, waiting for the global community through international financial institutions for regional surveillance may be too little too late for timely policy measures that can safeguard the region from contagion from other parts of the world.

Indeed, it is very important for policymakers with common challenges to put greater efforts in having a clear and in depth understanding of one another's policy and practices. This will, in turn, help raise the comfort level and can usefully avoid potential policy missteps and create policy synergies that eventually foster confidence of investors. This is the kind of trust that no amount of legal text, conditions precedent, or covenants can match, but is developed through the friendship and goodwill among friends within the region. Countries in the same region tend to possess better understanding and coordination, and therefore, policies and initiatives at the regional level can be more effective and timely.

Second, while the Asian financial crisis was a wake up call for Asia on the need for regional liquidity facility, Asian countries need to consider making such facility sufficiently large and effective with timely disbursement in light of the current global crisis.

During the Asian financial crisis, more than 75% of the IMF's financial package for Thailand came from the funding within the region. The present global situation has also reconfirmed the vision set for the by the Chiang Mai Initiative (CMI) that Asia needs to have its own regional liquidity facility to protect itself from contagion, be it caused within the region or from outside.

It is therefore timely that coordination and cooperation among countries be further strengthened to ensure that prompt remedial actions can be put in place in light of the ongoing global financial crisis.

Ladies and Gentlemen,

To conclude, I wish to remind you that the present situation calls for the need to greater international cooperation, which requires concerted efforts by international organizations, regional cooperation and national governments, in combating the global financial crisis. Regional cooperation must be coherent with national policy and work hand-in-hand with international cooperation.

The impact of crisis today and the effect of the unwinding of measures taken would not be a zero-sum game, and all players could potentially lose. Thus, going forward, finding the right balance and creating ties between these three, namely international, regional and national interests, will be an important task for national authorities.

Thank you.