

Asia Must Play a More Decisive Role

Chirathep Senivongs Na Ayudhya
Director of the Office of the Governor
Bank of Thailand

Asia can and should expand its role in the international arena following the global financial turmoil.

Today, the world expects Asia to be the first region to bounce back from the crisis, with China as a major driver of economic recovery. Notwithstanding the global contagion, Asian economies are not suffering from the financial sector crisis, and its growth potential will be dented only in the short term before resuming its long-term growth path.

Indeed, Asia should raise its voice on two important issues: ineffective global surveillance; and weak international financial architecture.

On the first issue, Asia should make it clear that international financial institutions like the International Monetary Fund (IMF) must be reformed to allow them to play a more effective and fairer surveillance role for the global community.

Regardless of how big its quota or representation, no IMF member can keep running fiscal and current-account deficits for an overextended period even if its currency is a safe haven. Moreover, the IMF must also significantly upgrade its ability to persuade big members to heed its recommendations to pursue the correct course of policy action. Failing to do so has already proven costly to the world economy in this round of economic crisis.

Importantly, Asia should also take an active role in spearheading the redesign of international financial architecture. This new architecture must respect the importance of the global financial system's stability, which is made up of the individual financial stability of systemically important countries. In so doing, the architects may need to go back to the basics of free markets and how best to address market failures.

We all know free-market mechanisms are ideal only when greed can be eliminated. The present crisis clearly reconfirms that even the best risk management techniques cannot overcome the detrimental consequences of greed even if it is called by another name, such as overleveraging

or sub prime investment. Therefore, in looking at the future financial architecture, the designers must be very mindful that there are severe costs when free markets fail.

It would be unrealistic to expect a foolproof international financial architecture. Nonetheless, if the architects include an emergency life-support system, such as a short term liquidity pool to help safeguard countries against short-term turbulence, overall global financial stability should be reasonably well protected. After a long delay, the IMF has now agreed to push forward a new facility called the Flexible Credit Line and is working on expanding its financial resources through such channels as the New Agreement to Borrow.

Going forward, it is also very important to ensure economies are not made vulnerable due to the pressure to liberalise financial markets and capital flows prematurely. To this end, the redesigning architects should also respect and allow room for the policy autonomy and space that each economy may need to have in order to safeguard itself.

(The views expressed are the author's own.)

Published in The Nation on Monday, May 25, 2009.