**NEAT Working Group Meeting on East Asian Financial Cooperation**

**May 29, 2009**

**Presentation by SEILAVA ROS, Ministry of Economy and Finance (CAMBODIA) - “Taking Collective Actions to Reform International Financial System”**

Mr. Chairman:

I have been asked to identify challenges and opportunities for Asian countries to take collective actions in reforming the international financial system during the global economic and financial crisis, and to consider how our countries can work to strengthen relationships within the region. It is a privilege to offer Cambodia’s perspective on these important and pressing issues.

This Meeting is very well timed, following closely the recent G20 Summit in London and the East Asian Summit at Pattaya. The global economic and financial crisis was at the top of the agenda for discussion by leaders of East Asian Summit member countries. EAS Leaders released a statement on the crisis, articulating our nations’ determination to take appropriate and responsible action in concert with the interconnected economies beyond the region, and to help each other to weather this unprecedented situation.

Our grouping’s mandate is to promote sustained economic growth leading to poverty reduction in Asia and the Pacific. Financial stability is vital to this effort. But financial stability cannot be achieved without a strong, resilient financial sector. The absence of such strength and resilience was, after all, one of the major causes of the Asian financial crisis of 1997-98.

Mr. Chair, Colleagues -

The current financial and economic crisis marks the first global crisis of the era of globalization. The root causes of the crisis were more than the failure of market regulation and the supervision of the financial institutions. These include the global payments imbalances and the demand for financial assets, leading to the manufacturing of the assets. Many financial institutions turned to high risk financial practices and adopted the strategy of bypassing this regulation.

Before many economists believe that Asia decoupled, i.e. Asia, sustained by China and India – will be able to maintain high economic growth, even if the U.S. and Europe will be in crisis. With the bankruptcy of Lehman Brothers in September 2008, Asia was immediately hit by the sharp rise in risk aversion and the resulting sudden stop of capital inflows. The channel of transmission of the crisis to Asia was net capital flows. The high volatility of international capital flows has been powerful factor in crisis contagion.

Trade was a major channel of transmission for East Asia, whose exports to North America and Europe amount to 12% of the region’s GDP. Trade was not only a vector of contagion, but an accelerator. Several Asian countries have seen their exports declining by 10 to 20%. The contraction of international trade is both a channel of transmission and a factor in the acceleration of output contraction.

With the current crisis the drivers of the recent globalization wave – open markets, the global supply chain, globally integrated companies, and private ownership – are being undermined.

The current crisis therefore poses a significant challenge for global integration. National responses to the crisis can lead to economic and financial fragmentation. Since the start of the crisis several countries have increased customs tariffs to protection their domestic production.

East Asian nations should provide appropriate responses to the crisis. Our region had gone through these painful experiences 10 years ago, when the Asian Financial Crisis swept through the region and left behind considerable damages of the financial tsunami.

The crisis also emphasizes the need to reshape global governance and economic landscape. This includes recapitalizing the international financial institutions, like the IMF. The ADB shareholders have already decided to raise the bank’s capital.

Restoring financial health will require a three-pronged approach, involving provision of ample liquidity and term funding support from central banks, dealing promptly and aggressively with distressed assets, and recapitalizing viable financial institutions with public funds. Stimulus measures must be accompanied by credible steps to strengthen fiscal sustainability.

Looking at the larger picture, many of East Asian developing countries (including Cambodia) are taking steps in four key areas to increase financial sector stability.

They are restructuring their banking systems to ensure financial soundness and operational efficiency. Along with this, they are improving bank supervision in line with the Basel Core Principles to reduce the potential for systemic crisis.

Countries are enhancing capital market infrastructure—particularly bond market infrastructure— to reduce their dependence on short-term bank or external financing for long-term investment.

These efforts are combined with better regulation and supervision of capital markets, in accordance with international standards and practices.

Many countries are also strengthening their legal, judicial and institutional frameworks and enforcement mechanisms for secured transactions and debt recovery. And, in most Asia’s developing countries, good corporate governance has become a priority.

**Challenges and Opportunities**

How long with this the economic and financial crises last? If the economic and financial crises continue what will happen to our Millennium Development Goals? Will we have a global depression or economic collapse of the world's market?

These are pertinent questions that leaders must consider. However, looking at what has happened globally, we see that we cannot just rely on market forces alone.

There needs to be government intervention to bring market forces under control. We cannot base a system simply on market forces, confidence, and speculations? How do you calculate risks? There are many challenges and opportunities we must consider they include the following;

* Develop international/regional institutional reforms with strong policies to regulate the financial market that are effective
* Coordinate economic policy with international/regional cooperation to resolve international problems;
* Develop an Asian Monetary Fund to regulate and prevent financial crisis;
* Responding to energy and food security and climate security;
* Meeting our MDGS;
* Cooperating and partnership with government and the private sector to resolve economic and financial crises; and
* Being innovative

**Priorities**

It is a priority that Asia needs to be active participants in constructing a new financial charter. Asia needs to be an important player in future transaction in the global monetary market.

* Asia has a large foreign reserve and trade surplus and this could be used as leverage to readjust the current growth model, global financial market in Asia's favor
* Restructure the international banking system
* Develop international financial law and order

**Approaches**

No country is isolated from the global crisis. There is a sharp decline in global economic activity. Since it is like a long-term global recession, we need to act together to protect our interest and work to protect the poor. Our strength comes in large part from a cooperative and a unified policy response. The 1997 Asian financial crisis helped Asian countries better prepare for the current crisis.

* To contain the immediate impact of the crisis on domestic liquidity, the authorities in nearly all Asian countries have eased monetary policy and injected large amounts of capital into the banking system.
* To compensate for the slowdown in export growth, authorities from China, Korea, Malaysia and Thailand have proposed large fiscal stimulus packages for this year.
* Governments need to develop policies that stimulating domestic demand and consumption
* Progress in key ASEAN and ASEAN+3 financial cooperation activities (Policy dialogue, ABMI, CMIM, Research Group) need to be speeded up not to loose the momentum.

We must be aware that these approaches only fix the financial crisis. **What about the economic crisis, in unemployment, food crises, health crises, and environmental crisis that affects us all?**

The global economic and financial crises challenge the world's ability to cope with economic downturn that poses risk to economical, environmental, social, and political stability. We must work cooperative together and take on global responsibility of bringing Asia through global hard times. We must act together, in common purpose, to provide develop long-term policies that create long-term opportunities for our people. It is time to step up to the challenges and work hard to ensure Asia's success.

Thank you!