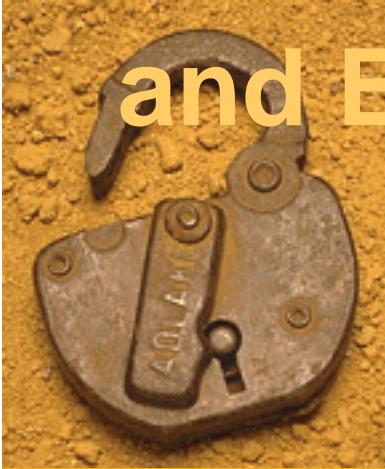


# Economic Integration and Financial Market Stability: Asia and Europe Compared



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# OUTLINE

- ◆ The implications of the current financial turmoil
- ◆ Major challenges facing East Asian Countries
- ◆ Is Asia ready to prevent the occurrence of another financial crisis?
- ◆ Some suggestions to strengthen regional financial cooperation




# The implications of the current financial turmoil

- ◆ The sub-prime crisis in the U.S. has most likely evolved into a broad and far-reaching credit crisis
- ◆ Economic growth was more or less dampened down in every corner of the world
- ◆ New losses of major international financial institutions continue to reveal and far from ending
- ◆ The recent injections of money by Bank of England and the FED showed how severe the financial market situation



# Major challenges facing East Asian Countries

- ◆ External demand will slow down and term of trade will deteriorate, negatively affecting export and the labor market
- ◆ The prices of food, oil and noble metals were pushed up, imposing great pressures on inflation
- ◆ Financial market turmoil in East Asian countries amplified due to the over react to the US crisis
- ◆ Less room for monetary policy to balance between controlling inflation and stimulating economic growth



# Asia is better prepared preventing the occurrence of another financial crisis

- ◆ The economic fundamentals maintained quite well by increased quality and improved structure of economic growth
- ◆ The competitions of external sector in East Asian countries strengthened due to the development of trade and economic integration
- ◆ Foreign reserves exchange rate flexibility were at historical high levels
- ◆ The banking sector are in very good situation with capital adequacy ratio well above 10% and NPL ratio around 5% or even lower



# Some suggestions to strengthen regional financial cooperation(1)

- ◆ The East Asian financial cooperation was triggered by the 1997 Asian Financial crisis
- ◆ ASEAN plus Three (10+3) and EMEAP are the two main platform for financial cooperation
- ◆ BSA network under CMI and ABF1&ABF2 under EMEAP were the main outcome
- ◆ Further efforts need to be made to achieve the potential benefits of financial cooperation



## Some suggestions to strengthen regional financial cooperation(2)

- ◆ Expediting the research on CMI multilateralization to establish the Self-managed Reserve Pooling Arrangement as soon as possible
- ◆ Drawing lessons from other areas to establish liquidity support mechanism among East Asian central banks aiming at stabilizing the financial market
- ◆ Strengthening the surveillance capacity of each members to better establish regional economic and financial monitoring framework and early warning system
- ◆ Making concrete steps to strengthen the cooperation to develop regional financial markets