So far, so good, for emerging Asia but financial, monetary challenges remain

Asian emerging market economies adopted a range of measures after the Asian financial crisis in the late 1990s to shelter themselves from economic and financial contagion. So far, those moves have succeeded. But with new challenges rising, some of the tools they turned to may need readjusting so that they don't cause more problems than they cure.

Hans Genberg, executive director of the Southeast Asian Central Banks Research and Training Centre, in Kuala Lumpur, Malaysia, suggests that, at the very least, more and better coordination is needed among various supervisory agencies. He also calls for an examination of whether central banks have taken on too much responsibility as their jobs have expanded.

Writing in a new Asian Development Bank Institute publication, *Global Shocks and the New Global and Regional Financial Architecture, Asian Perspectives,* Genberg suggests that Asian central banks went with a palette of solutions to the problems exposed by the Asian financial crisis.

Peter Morgan, co-chair of research at ADBI, is an editor of the book. He explains that emerging Asia's response to the crisis helped it get through relatively unscathed during the 2008–2009 global downturn that followed about 10 years later.

> Emerging Asia has been quite successful in maintaining both macroeconomic and financial stability in the turbulent global environment. Policy frameworks and governance structures have been adapted to reflect lessons learned from the Asian financial crisis. In general, policy makers have not been hesitant to adopt an eclectic approach to achieving monetary and financial stability.

After the Asian financial crisis, countries in the region expanded the methods they employed to protect and monitor their economies. Most of them allowed more flexibility for their currencies on global markets but, at the same time, boosted other methods where they could intervene, such as using controls on the flow of capital to and from their economies.

The responsibilities of central banks were expanded to include financial stability. So-called macro-prudential measures were used to intervene selectively in housing or other sections of the economy that needed attention. That allowed central banks to refrain from using the broad brush of interest rates, which affect the entire economy and might lead to unwanted capital flows in or out of the country or depress demand in sectors that weren't over-heated.

But the fact that those measures have worked relatively well for the last 20 years is no reason for complacency, Genberg writes.

Global trade and financial markets have become ever-more integrated and complex. Interest rate cuts in the US and Europe led to capital flows into Asia, and as those rates are raised, flows can reverse. The result can be turmoil in markets that have come to rely on the money coming in.

The long period of low rates in the West led some Asian companies and financial institutions to borrow overseas in foreign currencies. That exposes them to risk as the size of their debts in local currency terms rise as the value of dollars and euros increase along with interest rates.

Genberg also notes that a range of policies espoused by US President Donald Trump amount to what he calls a "toxic mix for emerging markets." Those policies could result in higher interest rates than had been expected as US borrowing rises, along with a contraction in global trade that would hit Asia particularly hard should a trade war with China develop.

With all these potential issues to deal with, the measures adopted by emerging Asia to deal with past problems may need some work. Morgan explains:

> PETER: The use of multiple instruments to achieve multiple goals is not without risk. At the very least it requires coordination among the entities responsible for each instrument, which, in turn, necessitates proper governance both within the central bank and between the central bank and other agencies involved. Expanding central bank objectives beyond price stability raises the question of the ability of central banks to reach these objectives while avoiding the attendant pitfalls.

This episode is based on Global Shocks and Risk to Financial Stability in Asia, by Hans Genberg, executive director of the Southeast Asian Central Banks Research and Training Centre, Kuala Lumpur, Malaysia. His work is a chapter in the Asian Development Bank Institute publication, *Global Shocks and the New Global and Regional Financial Architecture, Asian Perspectives*. Peter Morgan, co-head of research at ADBI, edited the book with ADBI Dean Naoyuki Yoshino and Pradumna B. Rana of the S. Rajaratnam School of International Studies, Nanyang Technological University, Singapore. This is part three of a four-part series based on the book.

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