



Asian Financial Development from a Global Perspective

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(Views expressed here are not necessarily those of CDRI)

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Four Questions

1. Why financial development?
2. What is financial development?
3. How Asia compares with the rest of the world (in financial development)?
4. What are the priorities for Asia in the years to come (in financial development)?

The Ascent of Money ...

5,000 Years of Financial History

- Money and finance – a major driving force behind human progress
- A complex process of innovation, intermediation, and integration
- As vital as the advance of science or the spread of law to human development
- Ascent of money crucial for the ascent of man
- Yet, a roller-coaster ride of ups and downs, bubbles and busts, manias and panics, shocks and crashes
- Financial crises in history – it is not different this time

Post-Crisis Financial Development Issues

- Regulate, regulate, and regulate – the new global financial anthem?
- Will one-size fit all? where and by how much? A differentiated approach needed?
- Is there a “West” versus the “Rest” dichotomy here?
- Where does the “East” – Asia – stand on this?
- Is there a need for differentiation within Asia too?
- It all depends on the stages of financial (economic) development

What is Financial Development?

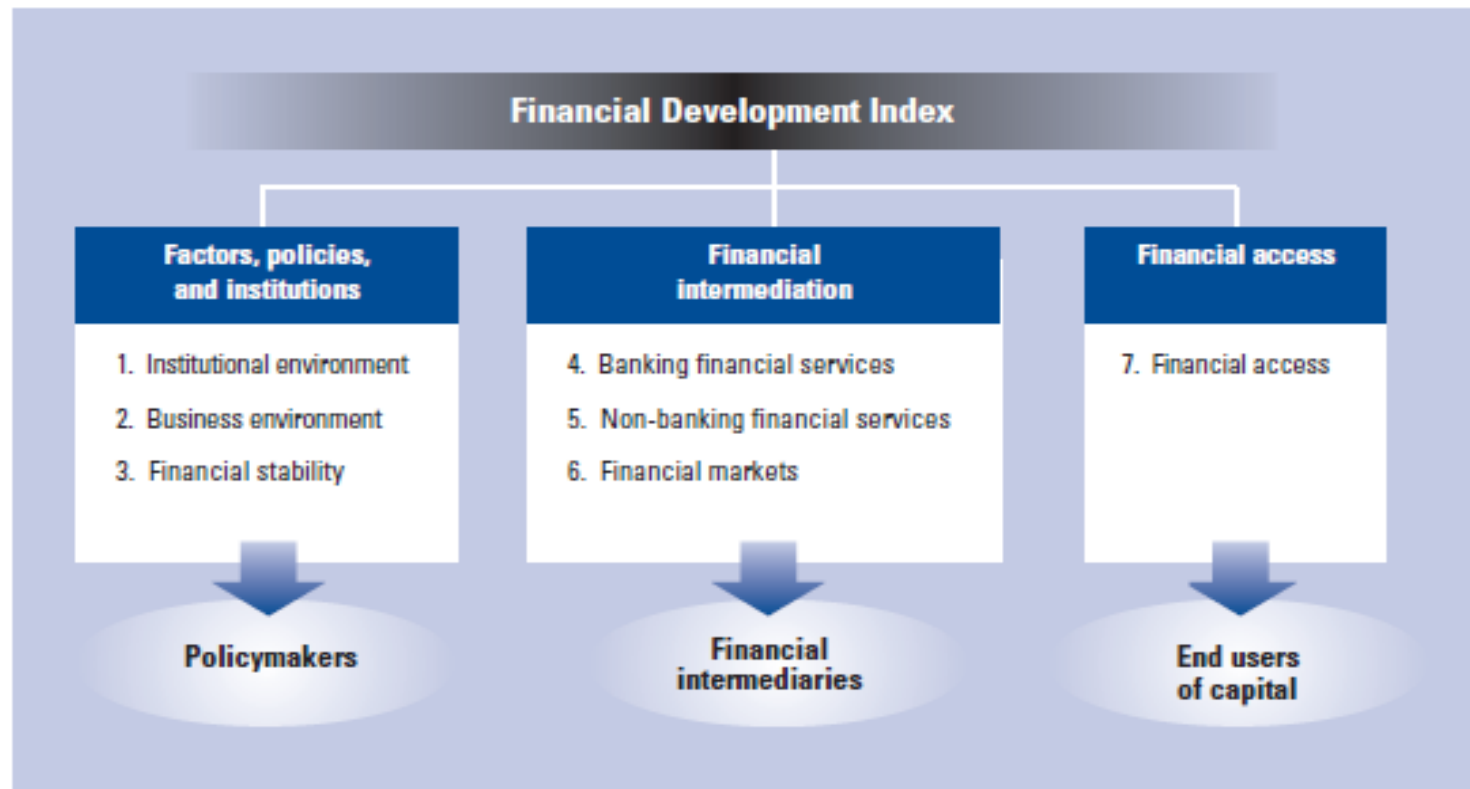
- Means different things to different people?
- A common practice looks at the size of the financial assets relative to income (GDP)
- But this ignores the multi-faceted nature of financial development
- So what can be done? WEF initiative – a composite financial development index

Seven components of financial development that fall under three broad categories:

1. Policies and Institutions
2. Financial intermediation
3. Financial access

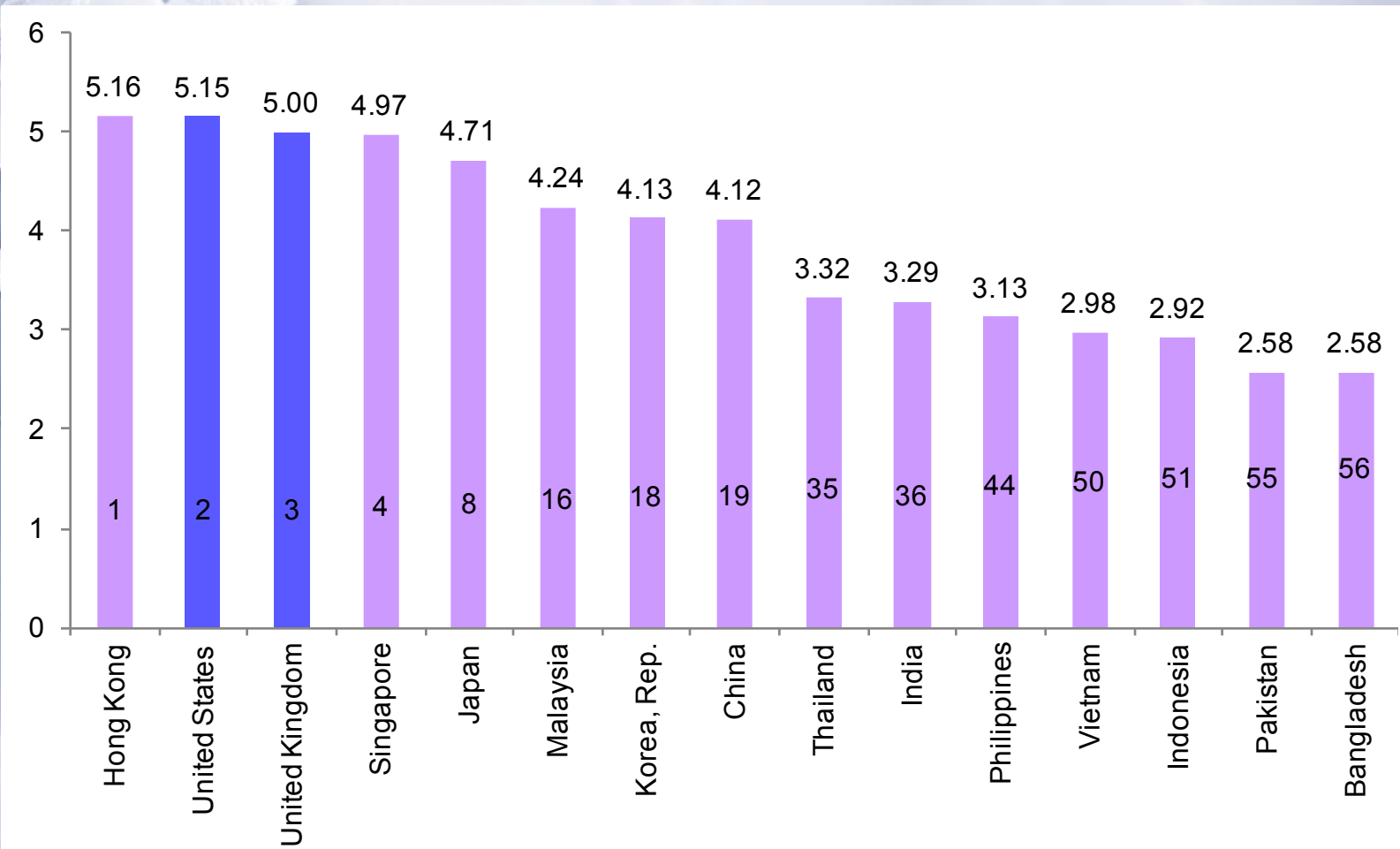
The Concept of FDI

Figure 1: Composition of the Financial Development Index

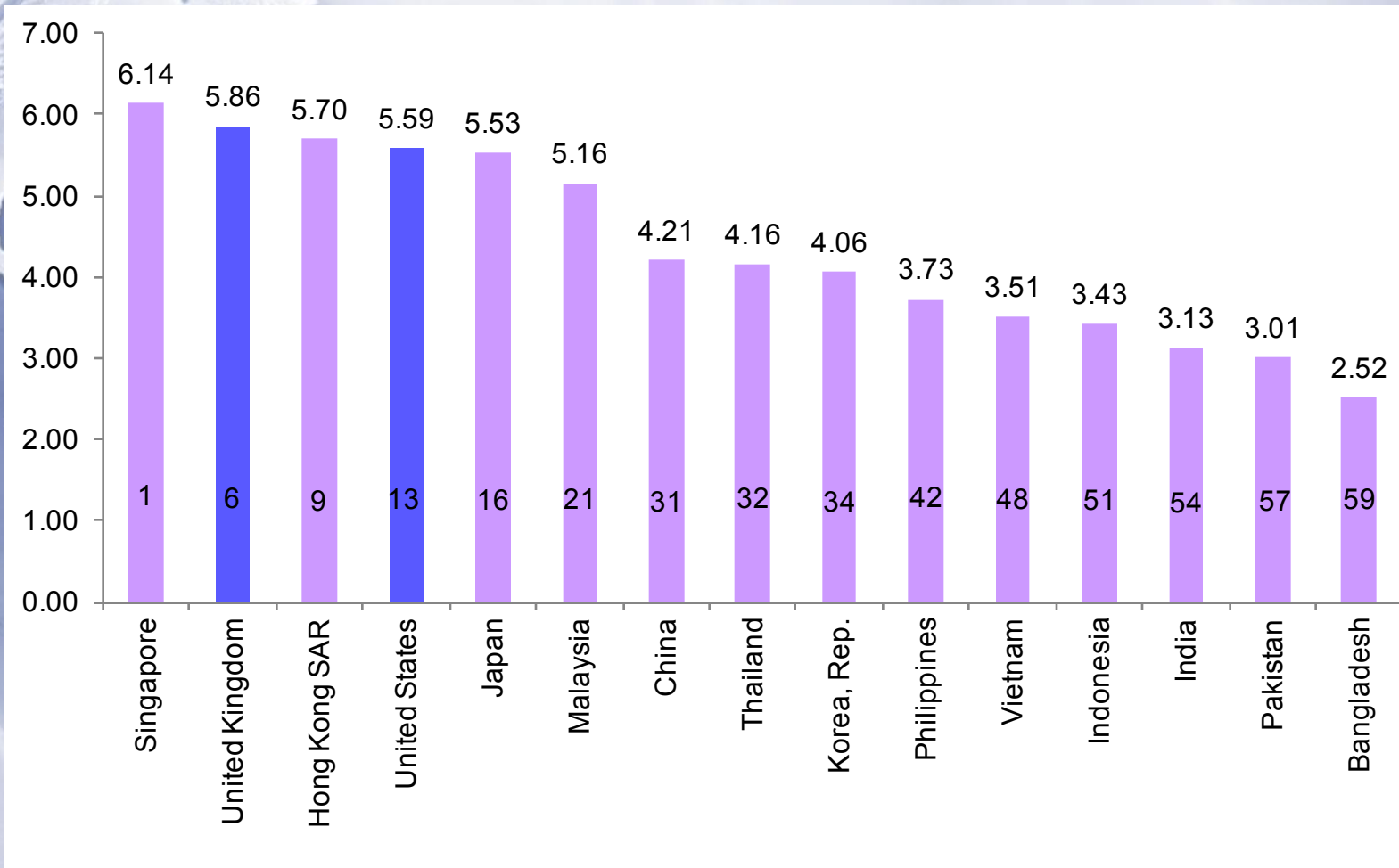


Source: World Economic Forum.

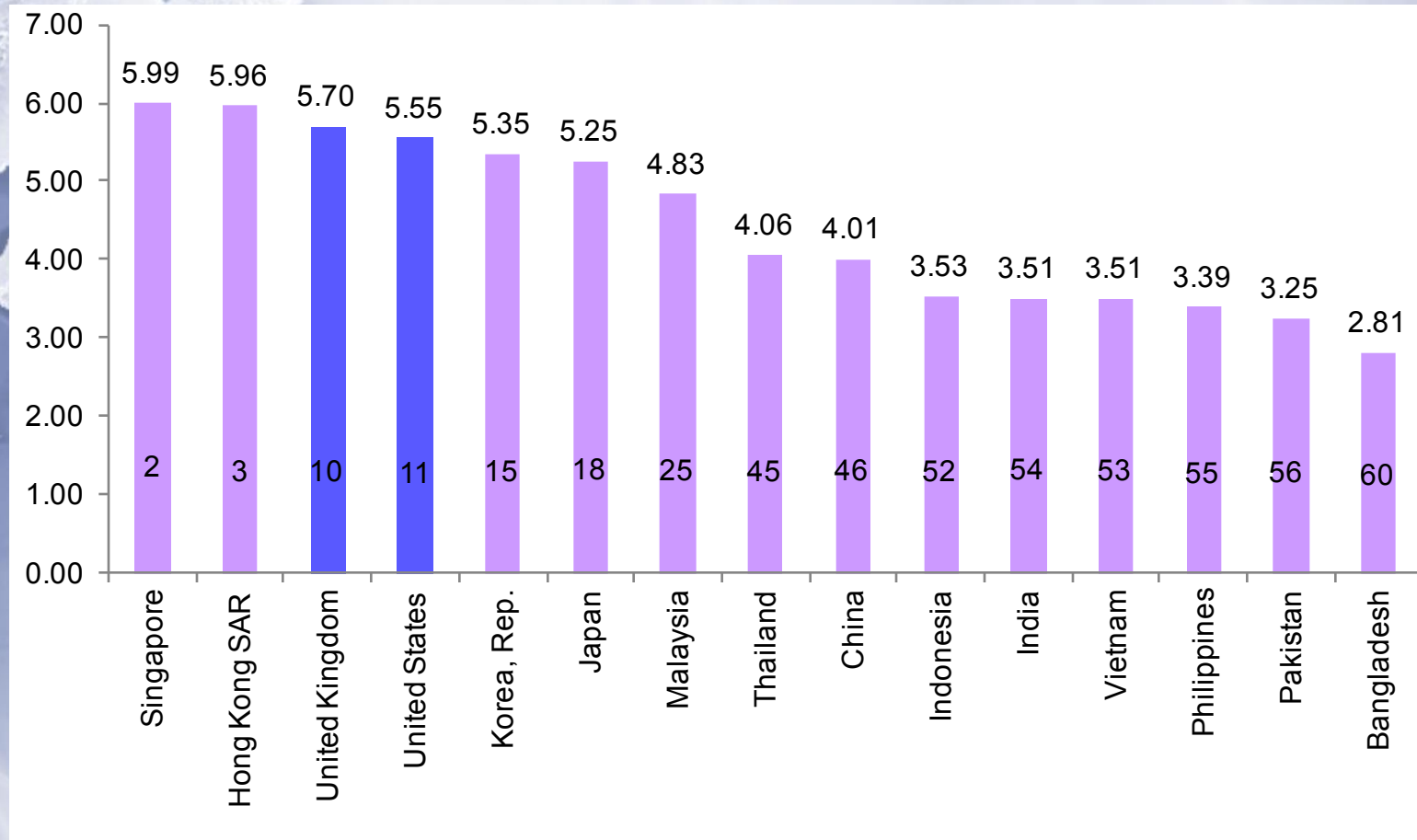
FDI – Overall Scores and Ranks



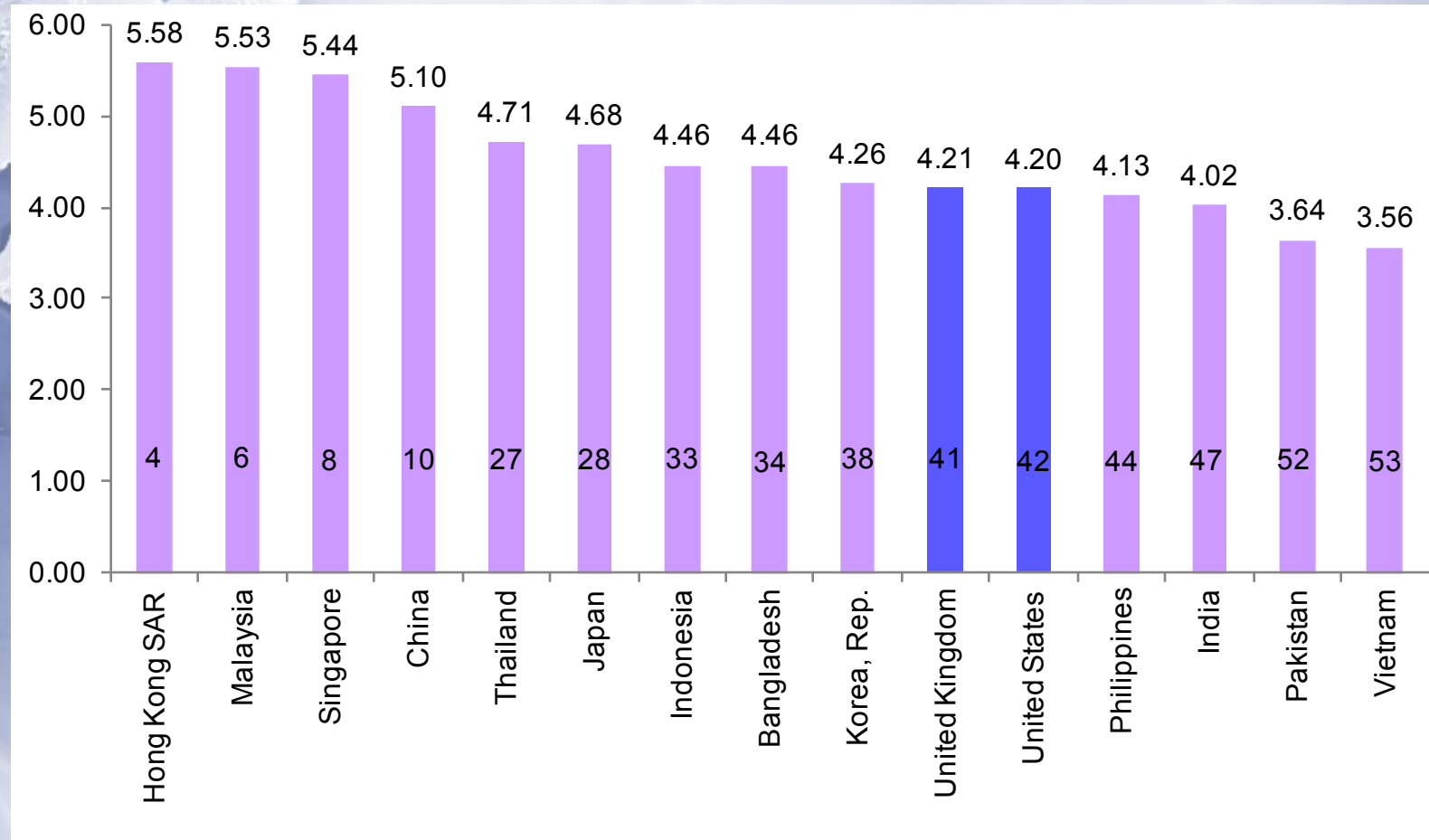
1st Pillar: Institutional Environment



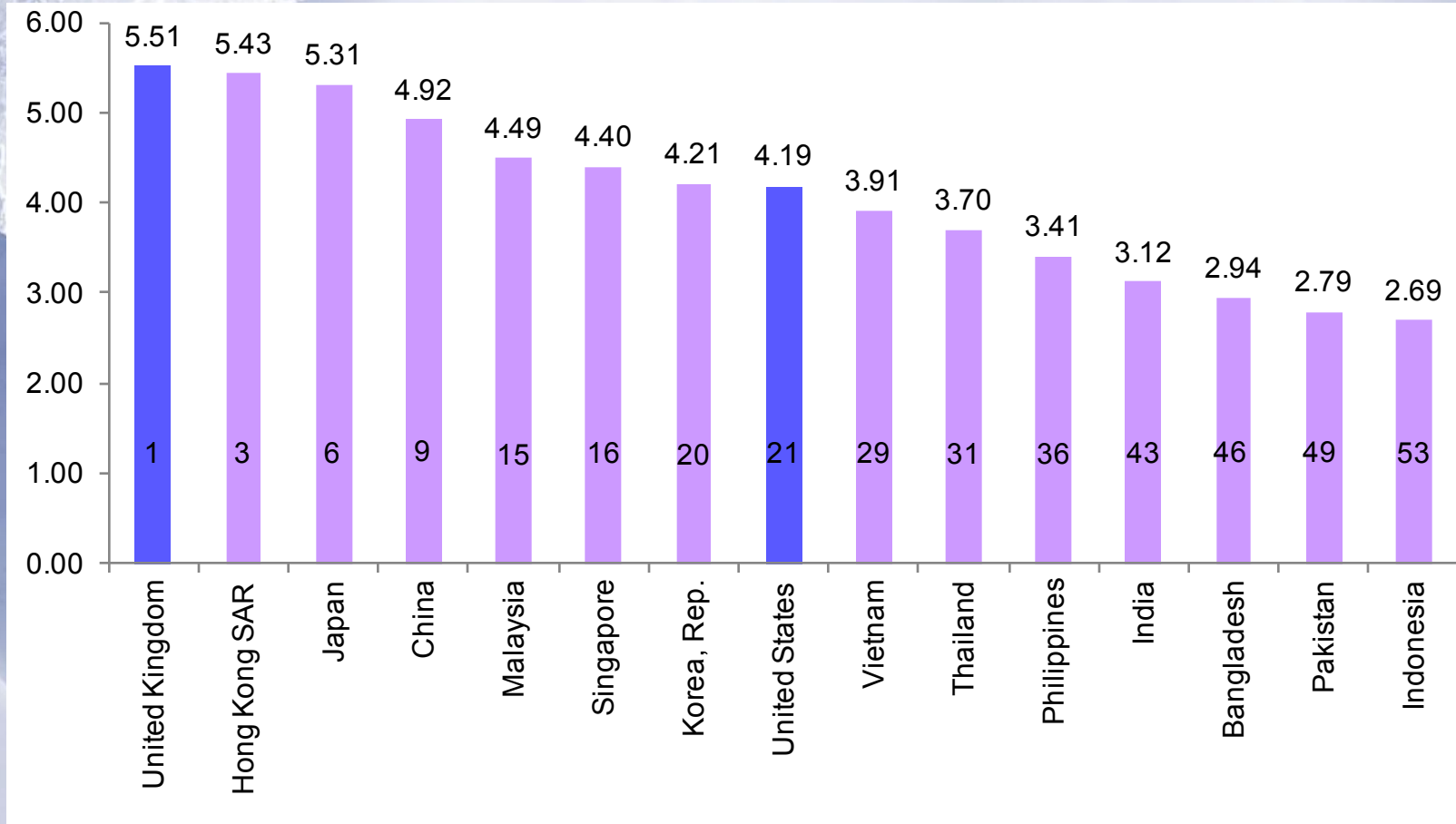
2nd Pillar: Business Environment



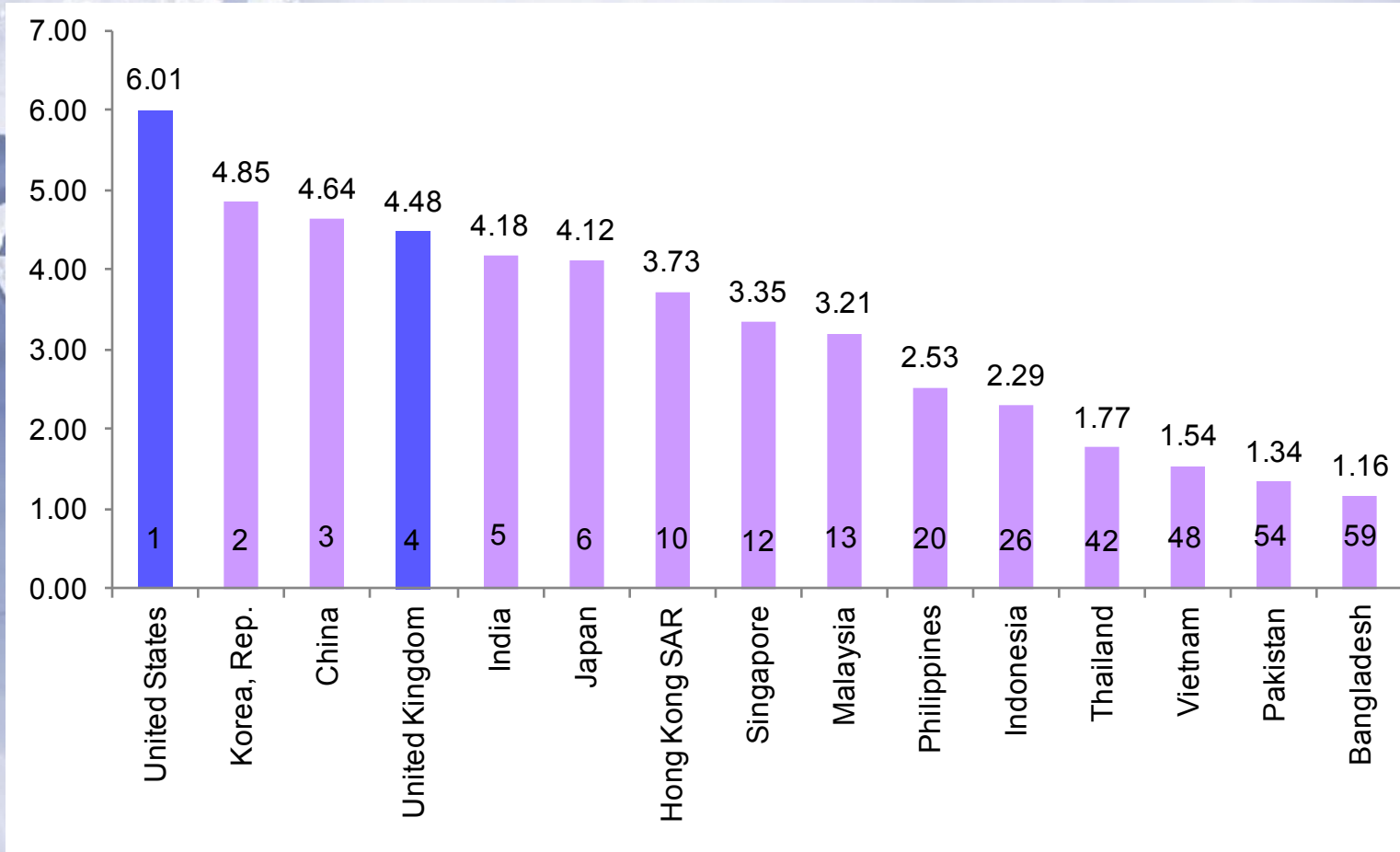
3rd Pillar: Financial Stability



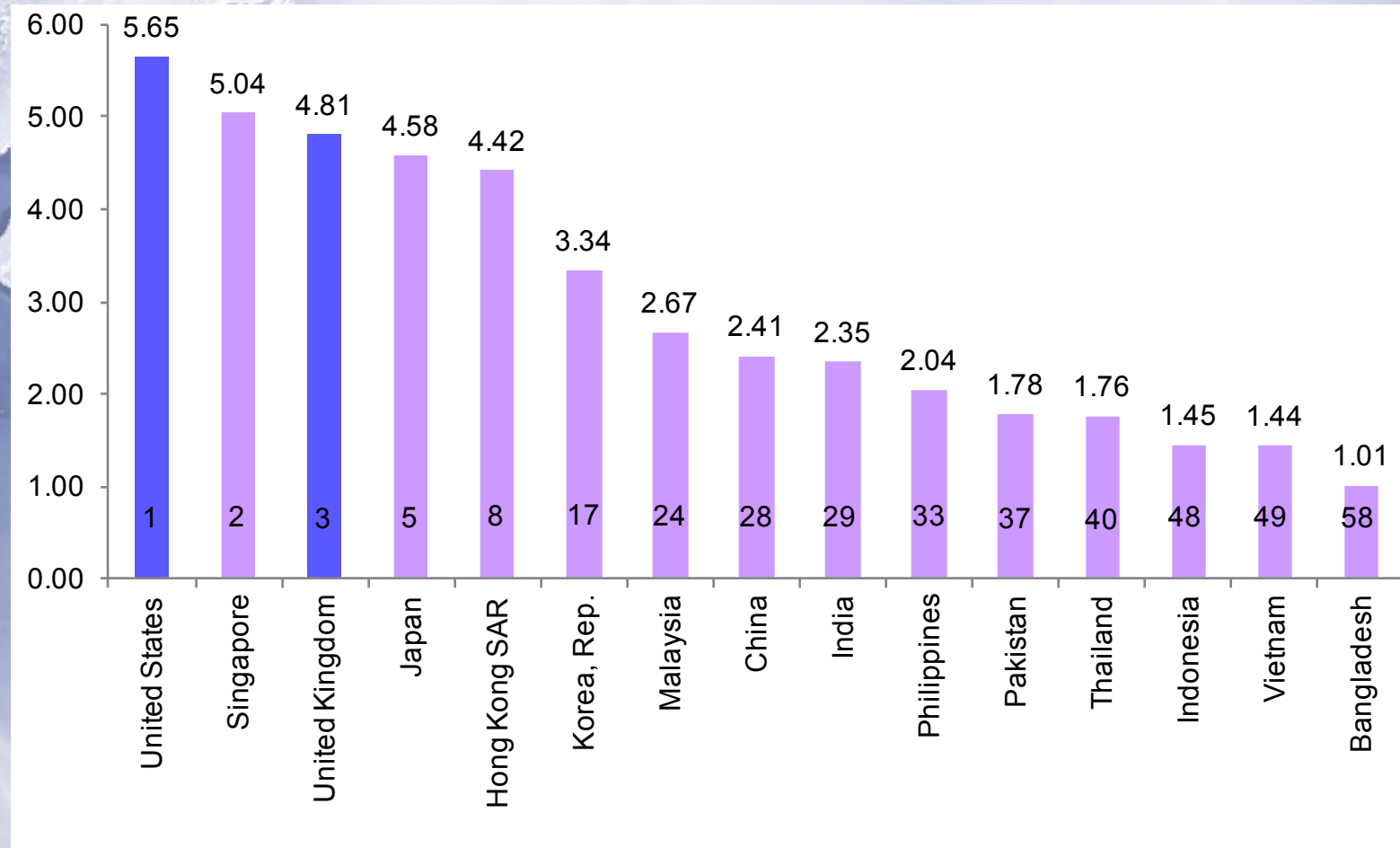
4th Pillar: Banking Financial Services



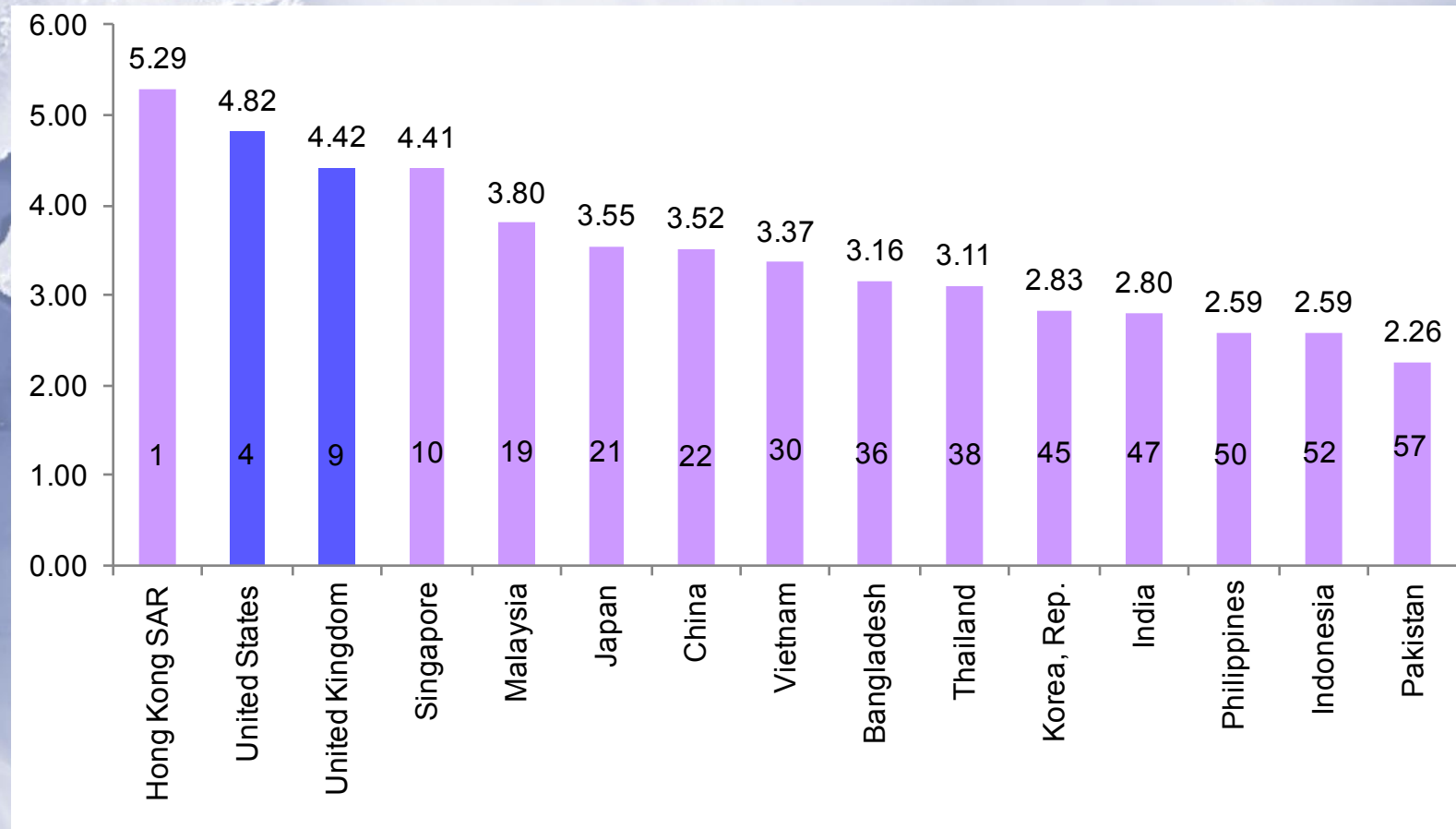
5th Pillar: Non-Banking Financial Services



6th Pillar: Financial Markets



7th Pillar: Financial Access



Asian Priorities for Action

		Hong Kong	Singapore	Japan	Malaysia	Korea	China	Thailand	India	Philippines	Vietnam	Indonesia	Pakistan	Bangladesh	United States	United Kingdom
Policy Makers	Institutional Environment	○		○	○	○	○		○	○	○	○	○	○		
	Business Environment			○	○		○	○	○	○	○	○	○	○		
	Financial Stability			○		○				○	○		○		○	○
Financial Intermediaries	Banking Financial Services		○						○	○		○	○	○	○	
	Non-Banking Financial Services	○	○	○				○			○		○	○		
	Financial Markets	○			○		○	○	○		○	○		○		
Financial Access		○	○	○	○	○	○	○	○		○	○				

Asian Challenges ...

Diversities and Commonalities

- The Asian financial crisis – the first wake up call for Asia; the current global financial crisis – a second opportunity for action:
 - **Hong Kong and Singapore** – keeping the newly earned titles
 - **Japan** – recovering the lost (and still losing?) ground
 - **Korea and Malaysia** – keeping the momentum of the recently started innovation and dynamism
 - **China** – don't take financial stability for granted
 - **India, Philippines, and Thailand** – lot more to do in many areas of financial development
 - The **rest of Asia** – much more plumbing to do than others
- Two common themes for Asia:
 - Connect globally, integrate regionally, and act nationally
 - Balance regulation and market freedom; innovation/dynamism and stability

The Great Balancing Act after the Great Recession: Things to Remember

- There is no data on the future ~ Laurel Cutler
- You cannot plan the future by the past ~ Edmund Burke
- Only he who does nothing makes no mistakes ~ French proverb
- Turn your stumbling blocks into stepping stones ~ Anon
- We must make the best of those ills than cannot be avoided ~ Alexander Hamilton
- In adversity, remember to keep an even mind ~ Horace

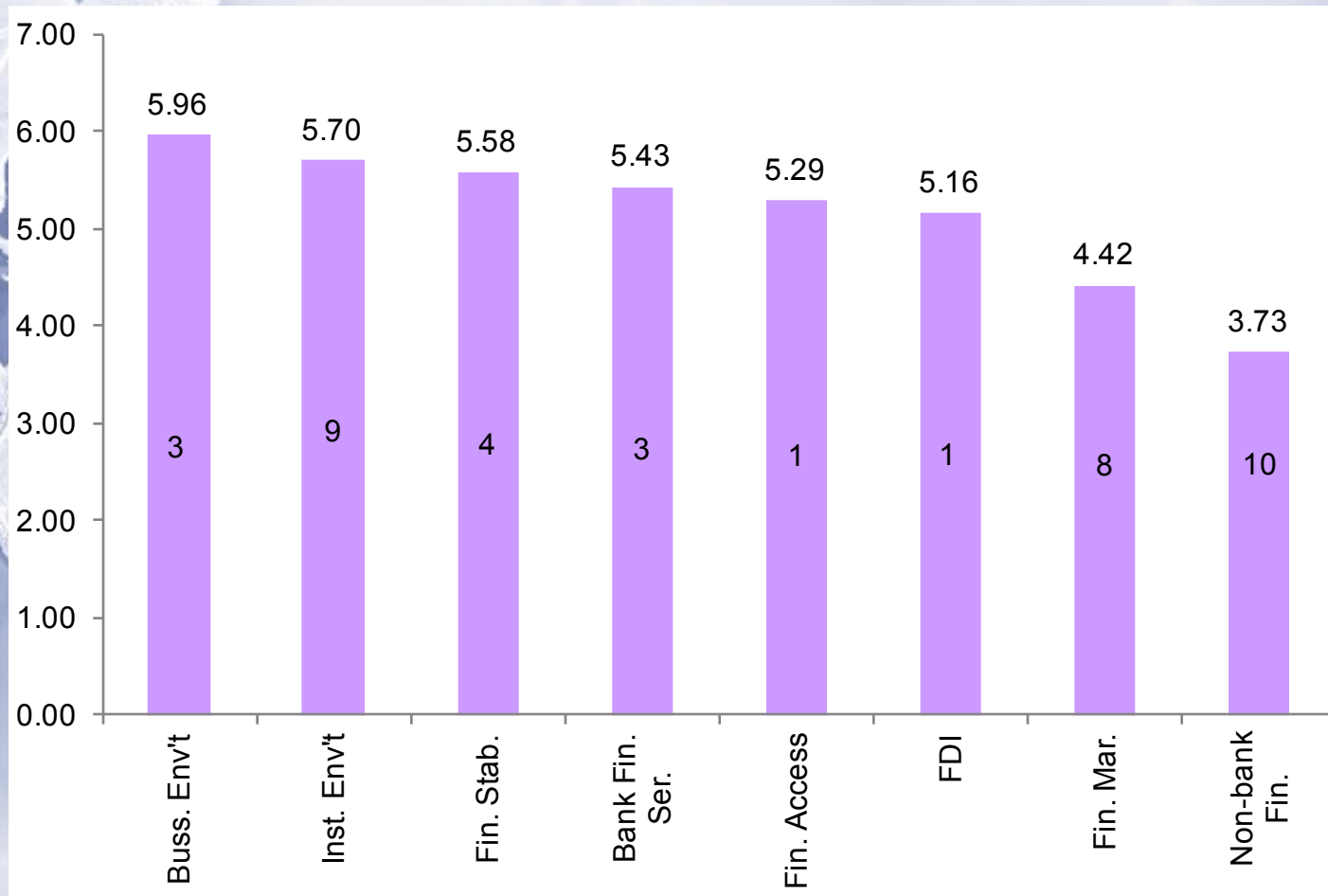
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Appendix

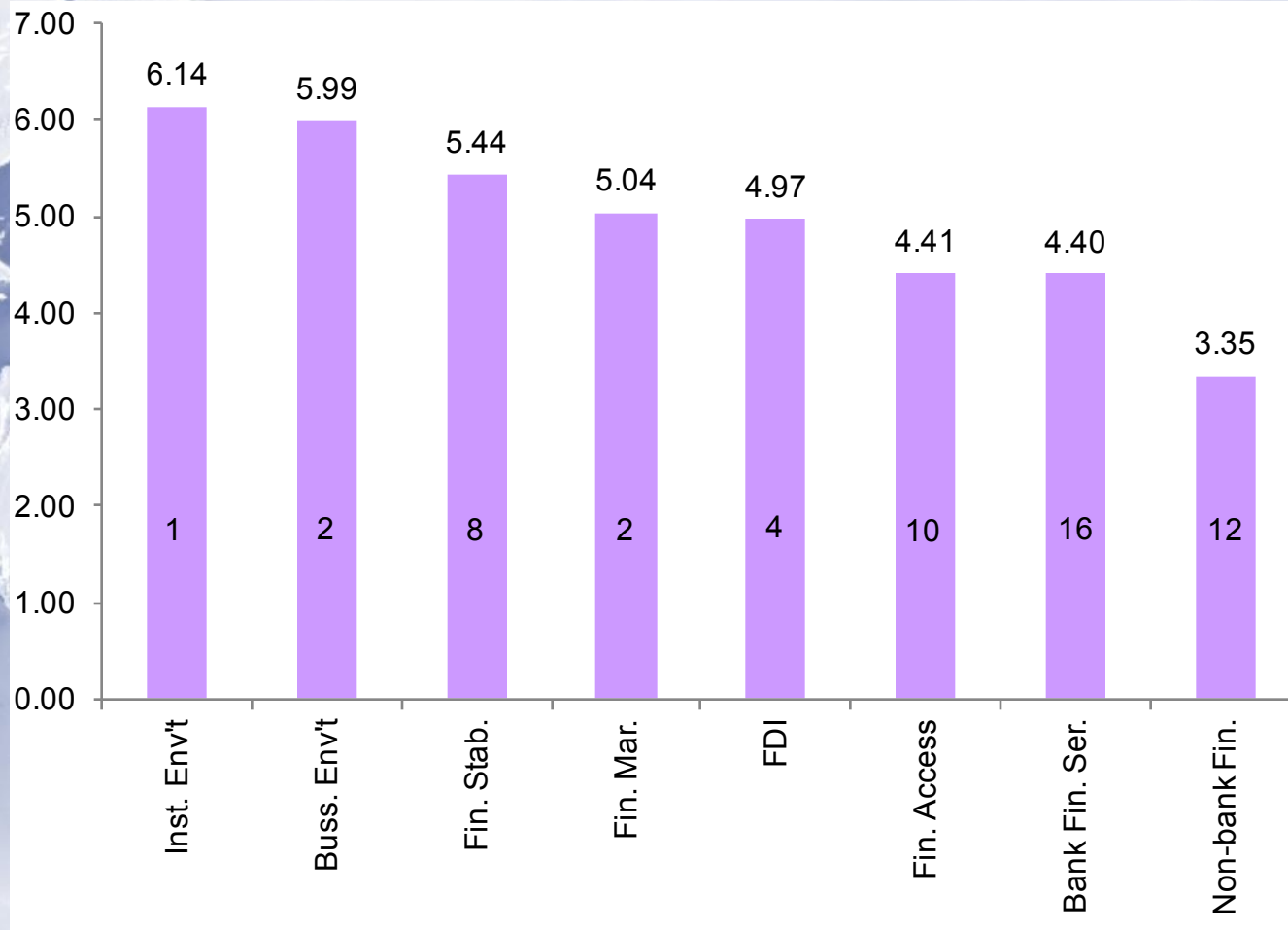
Individual Country Scores and Ranks

Hong Kong



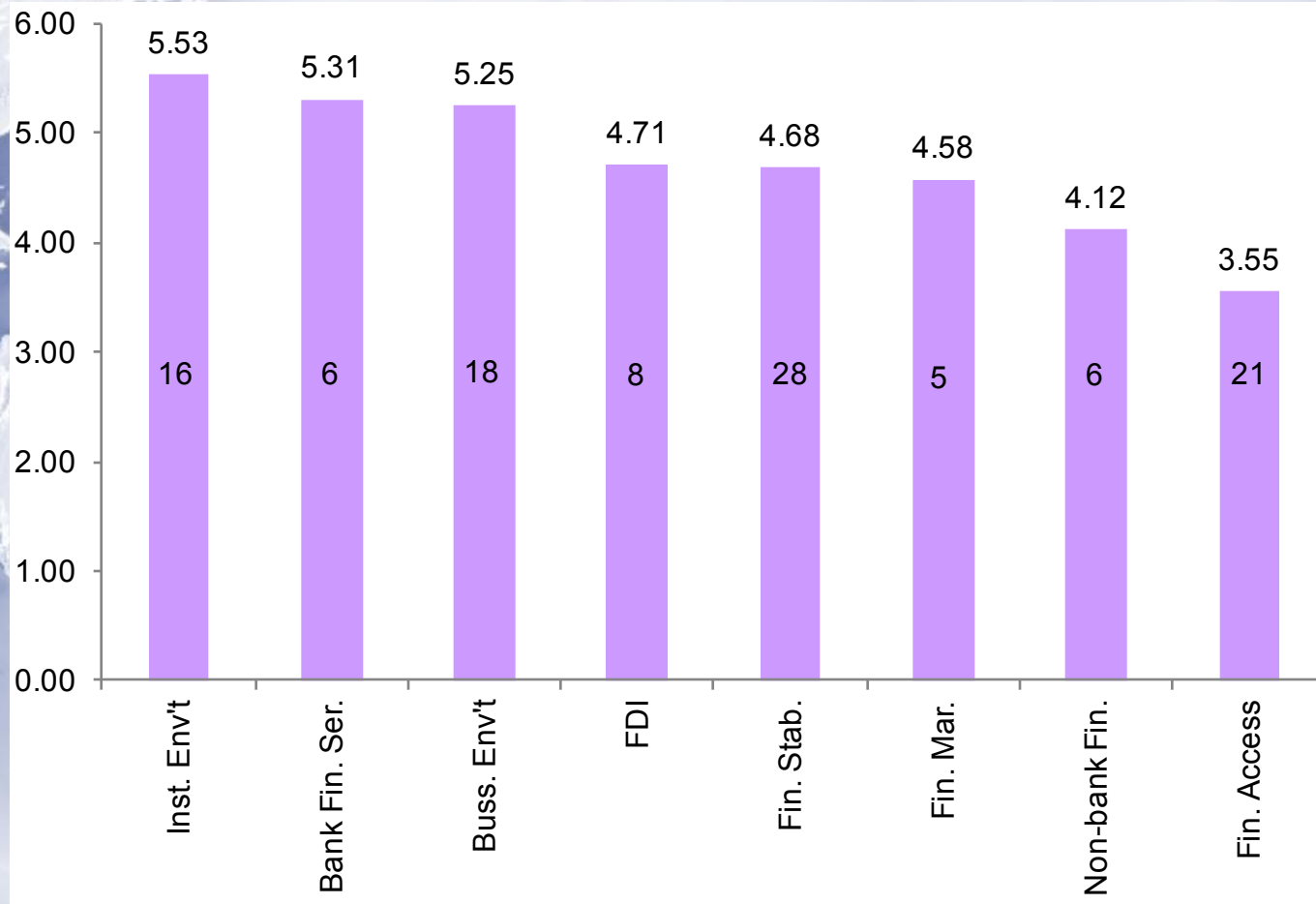
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Singapore



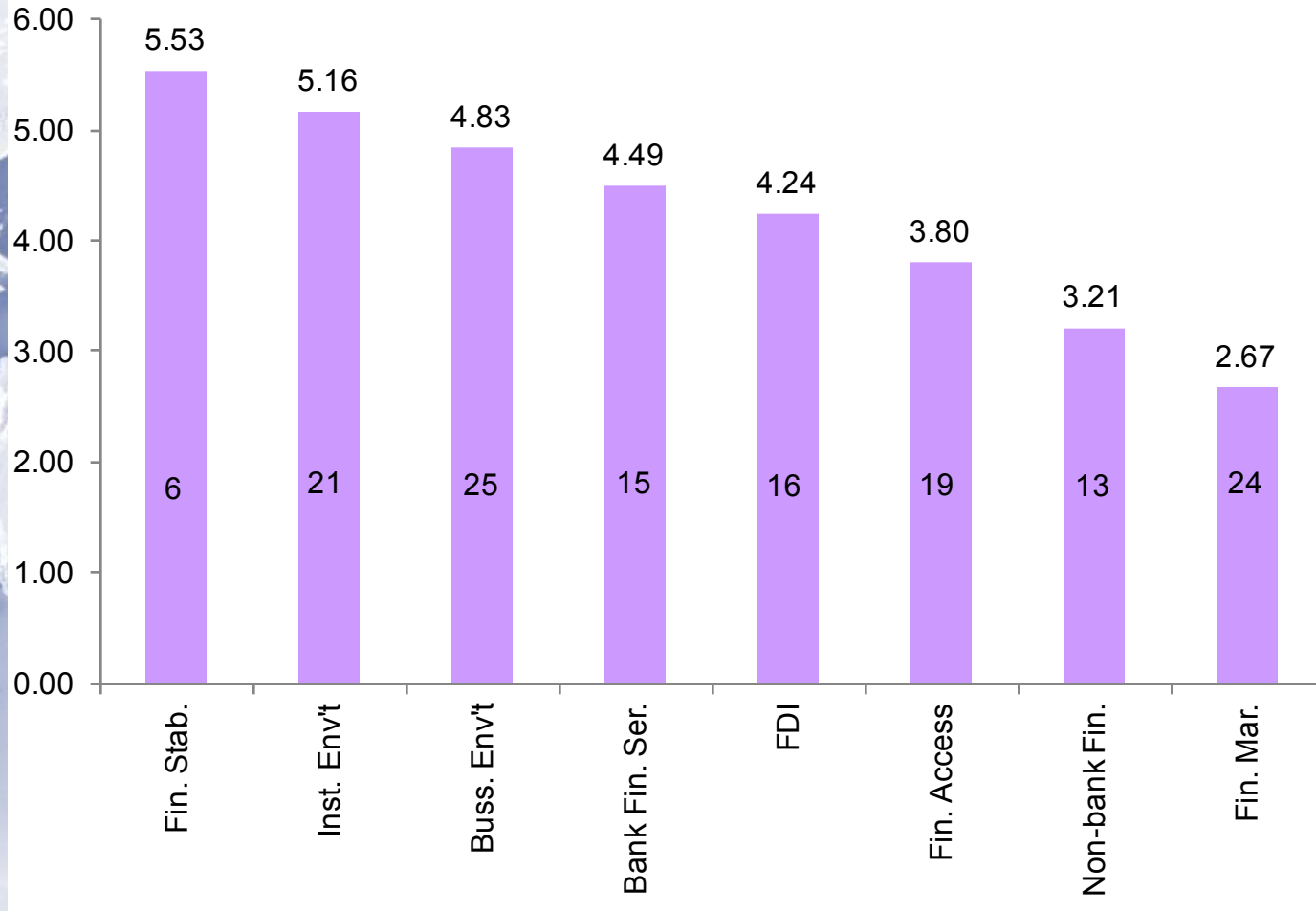
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Japan



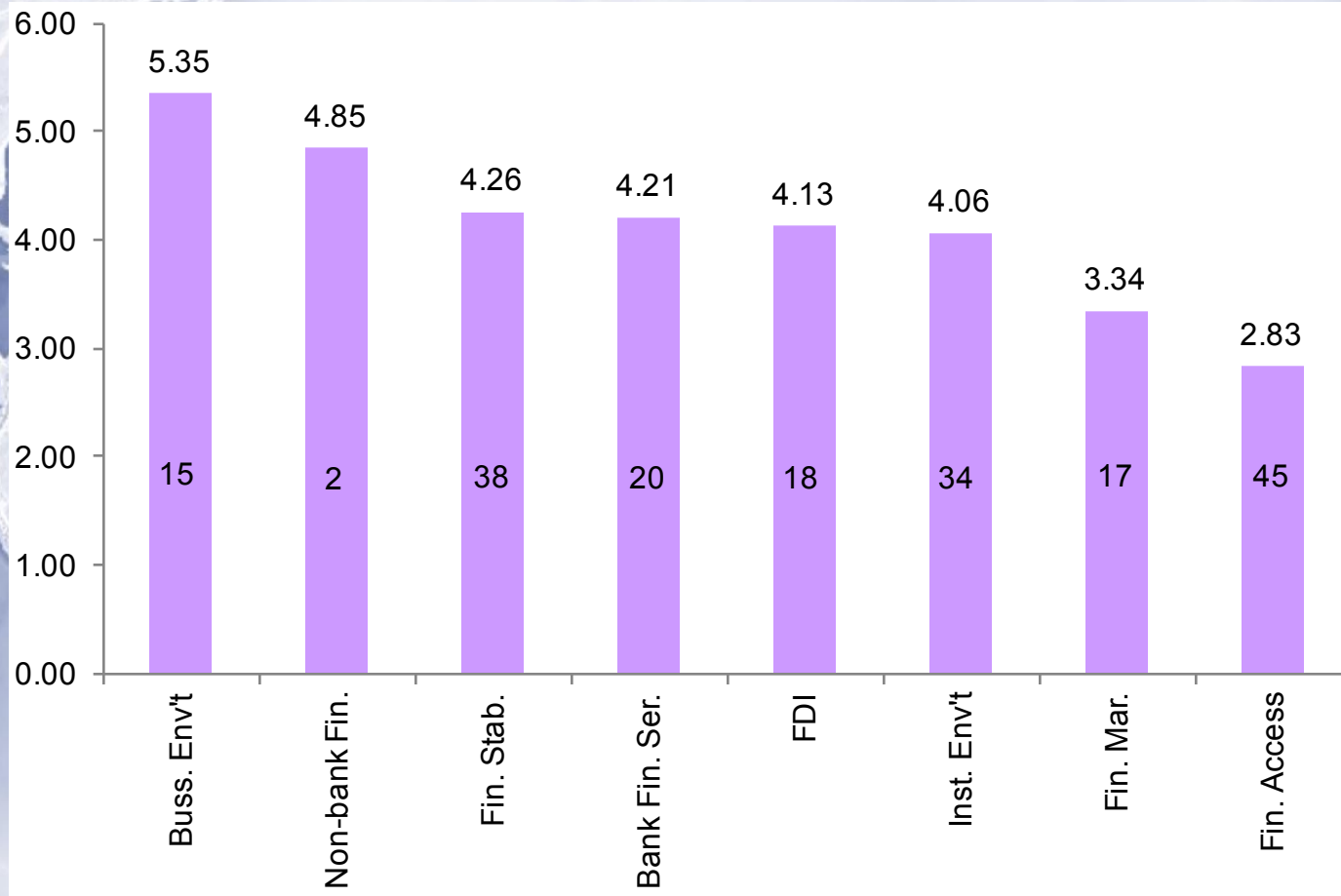
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Malaysia



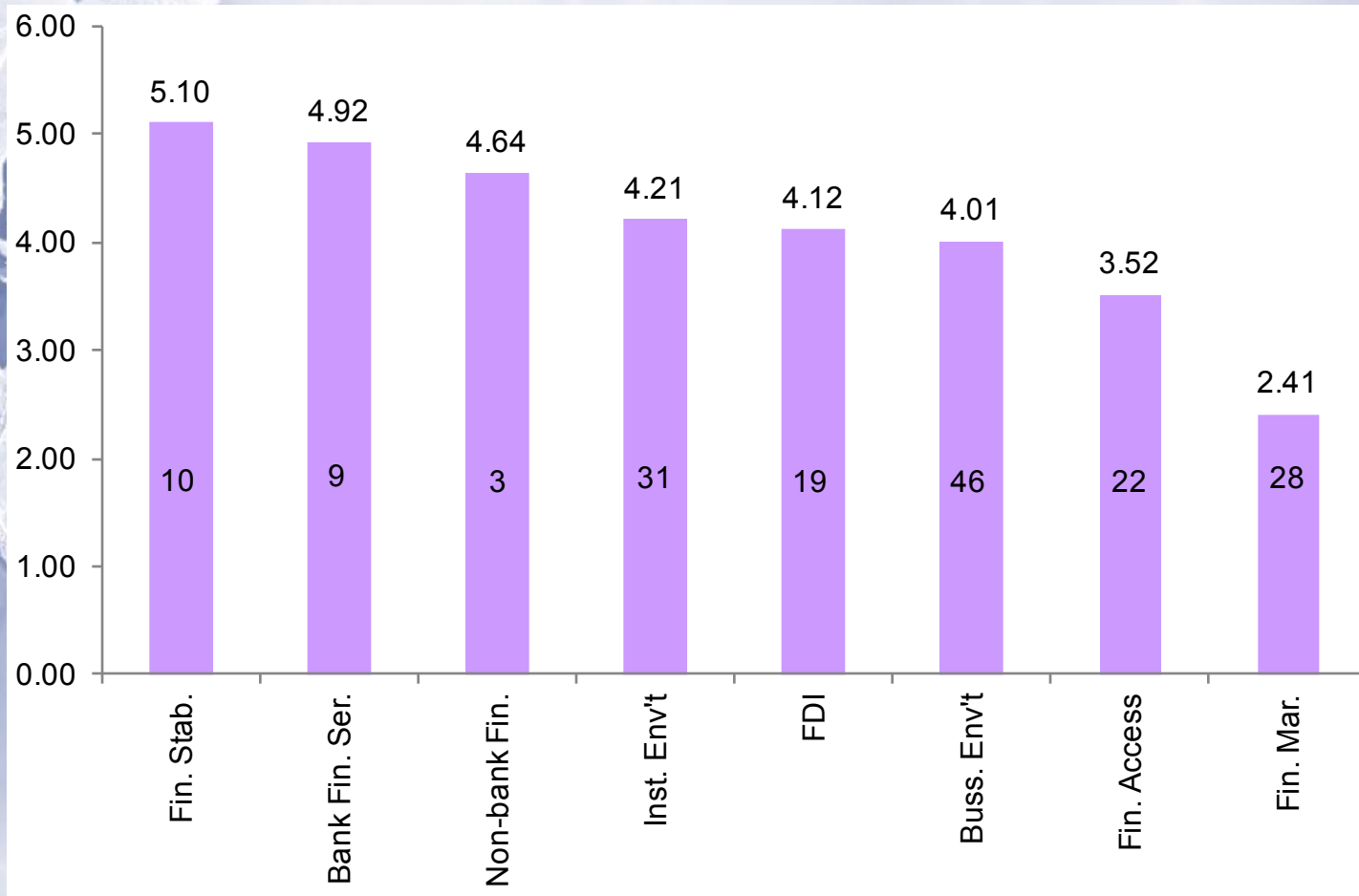
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Korea



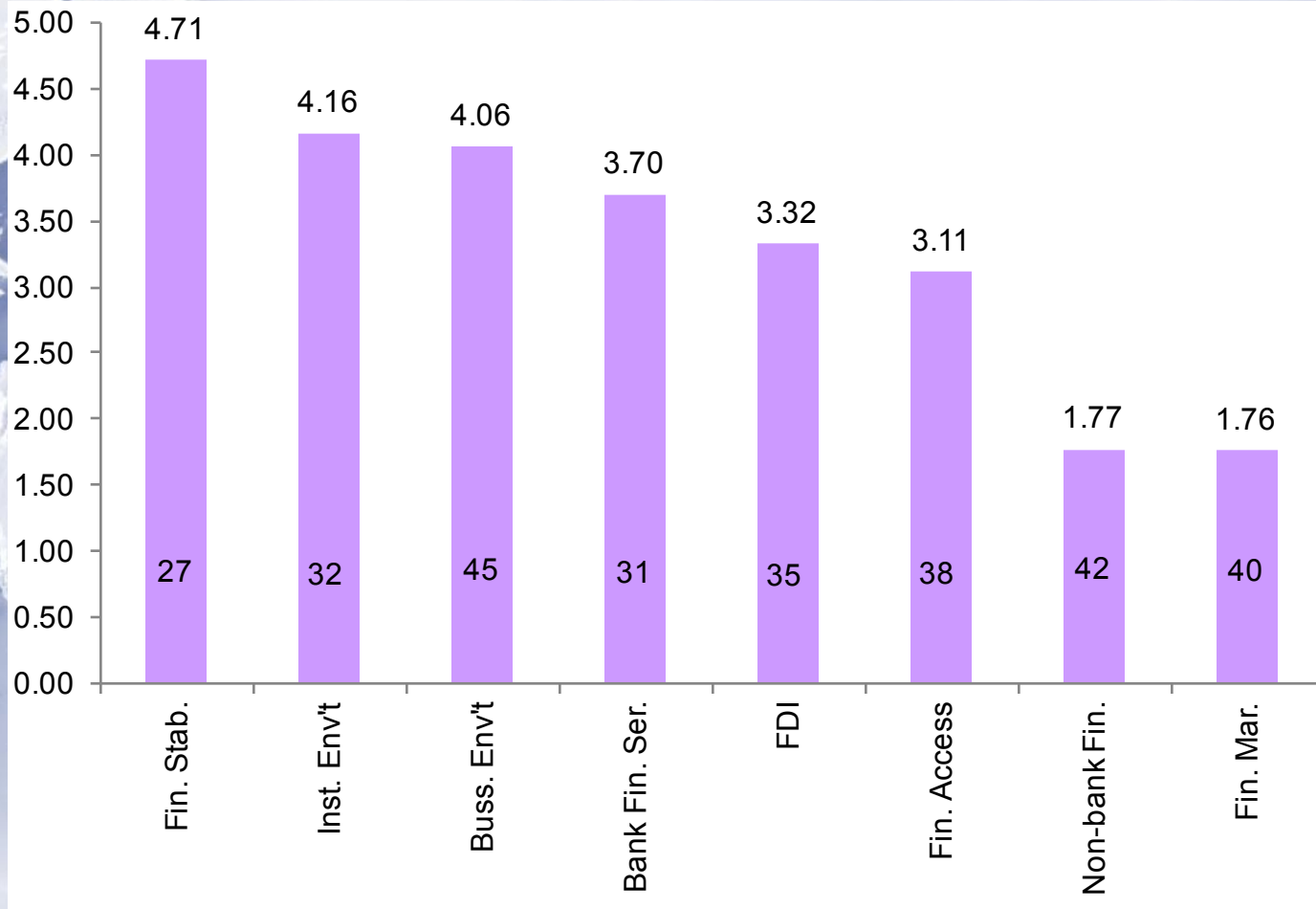
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China



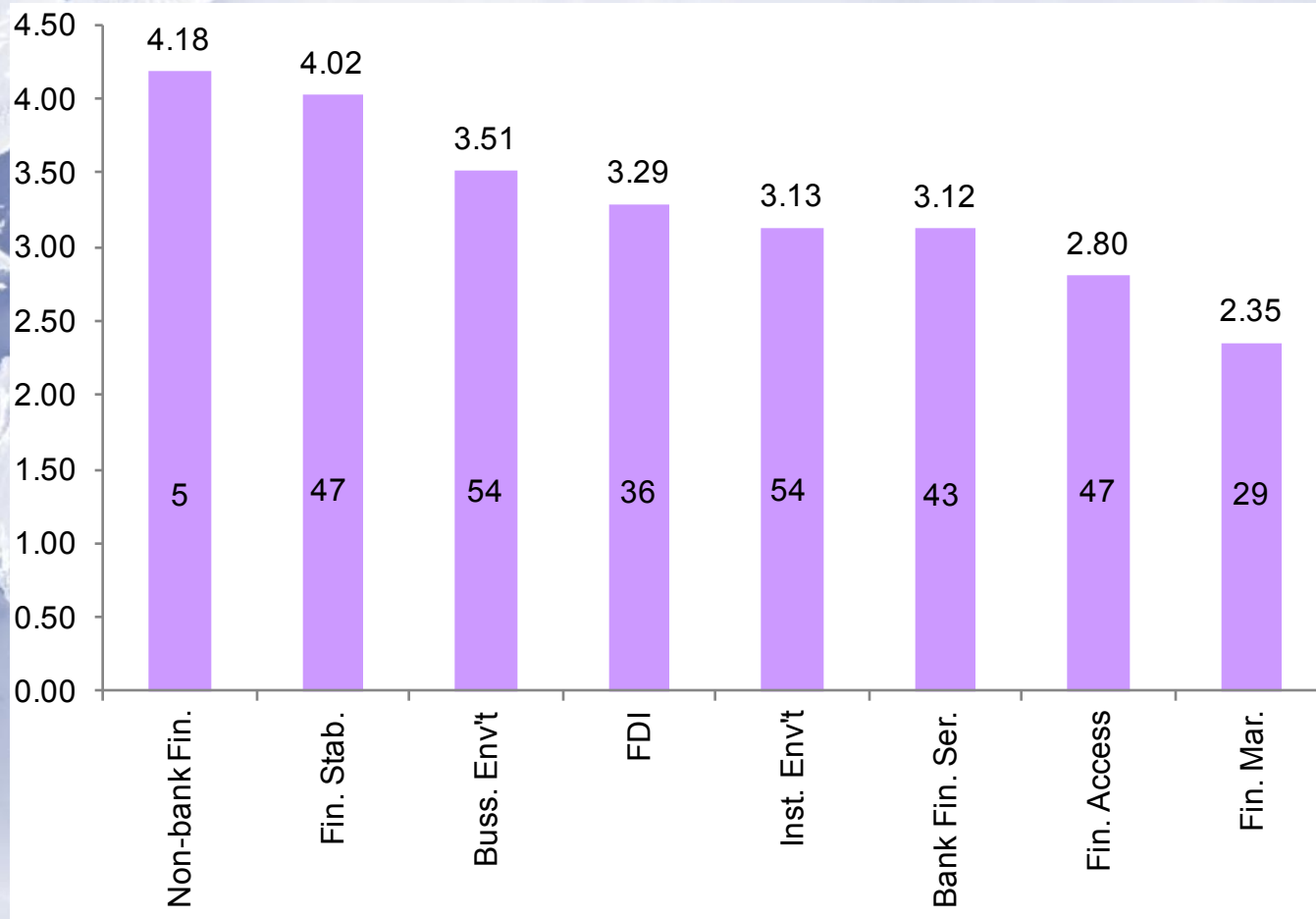
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Thailand



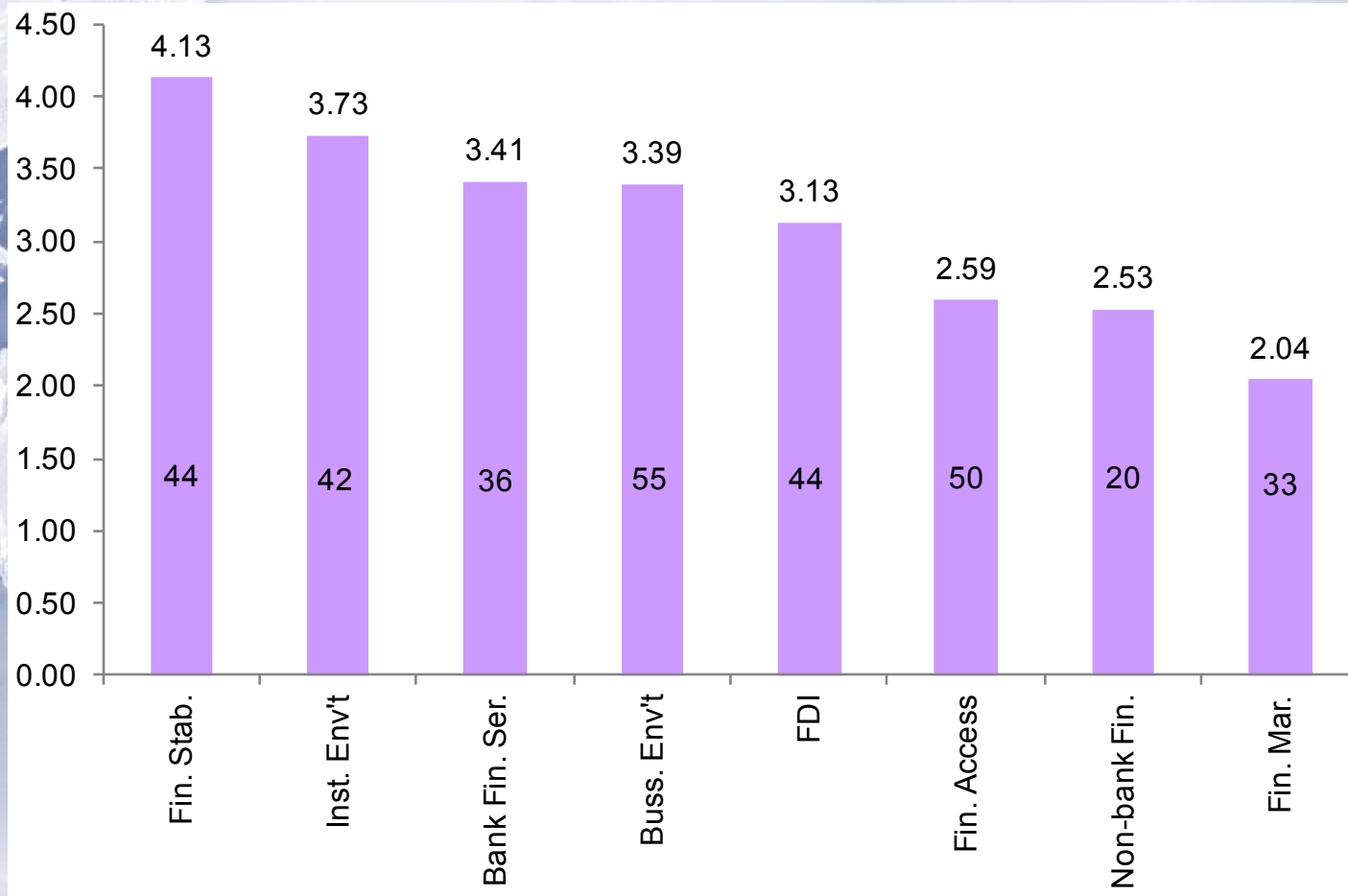
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India



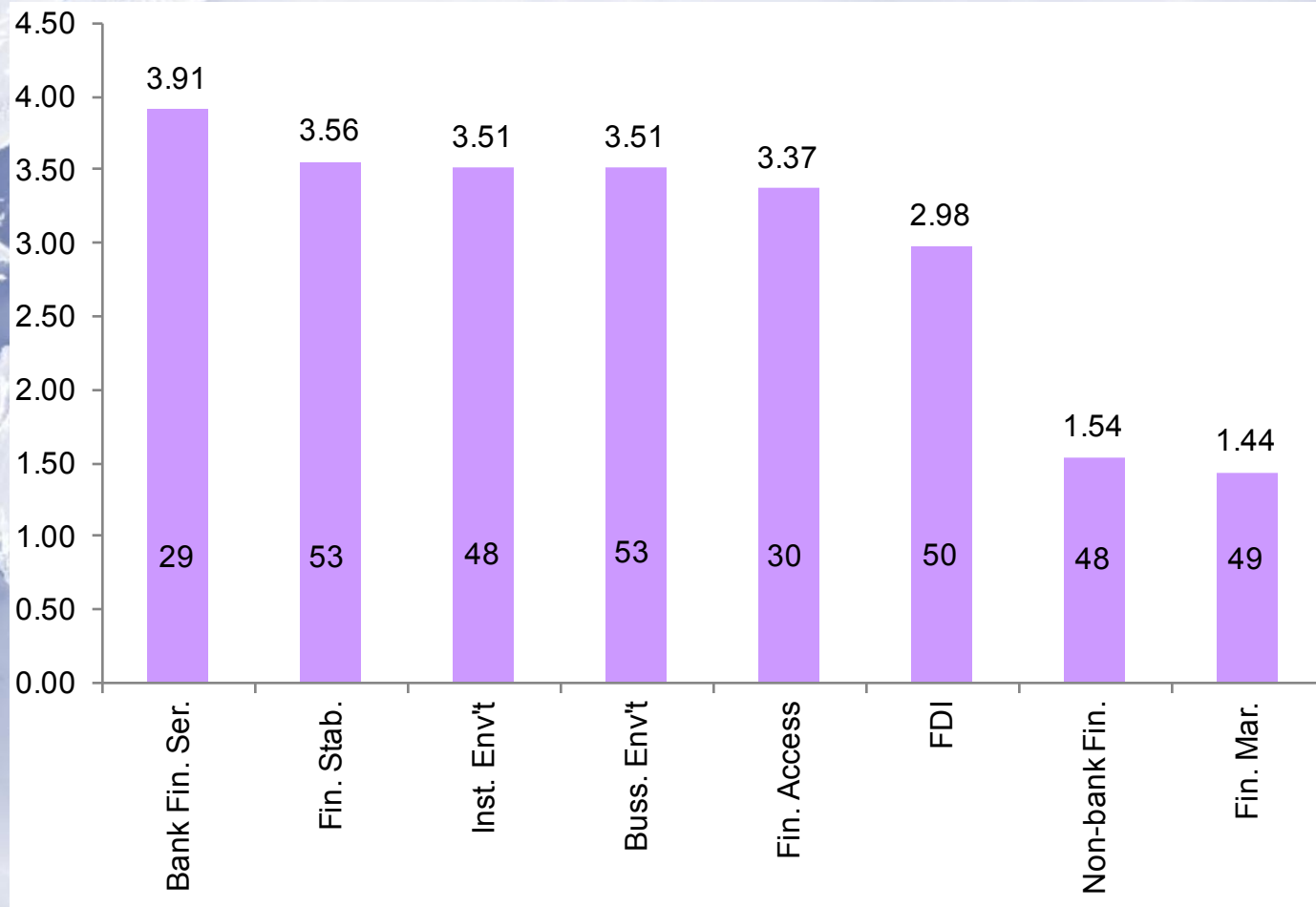
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Philippines



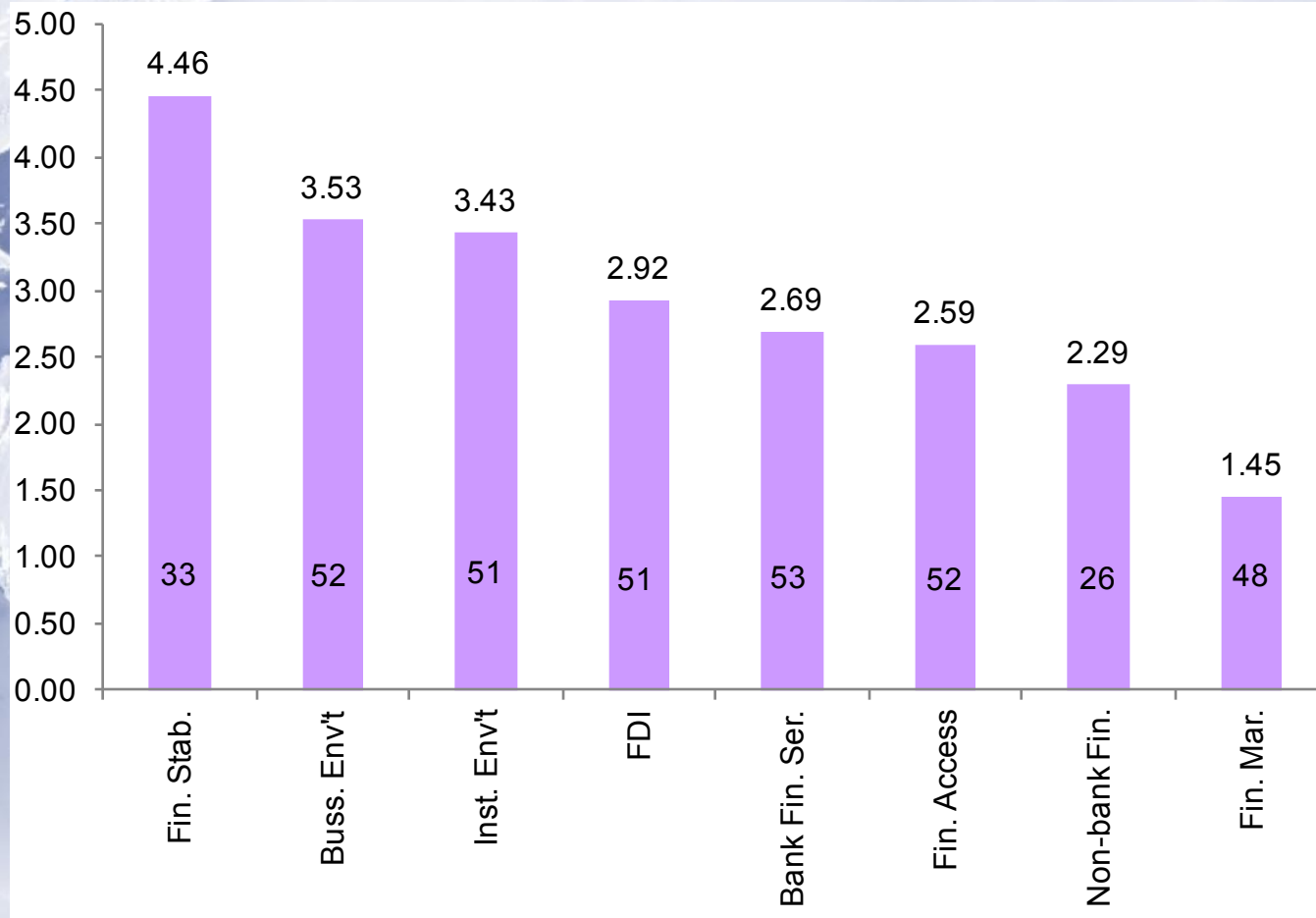
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Vietnam



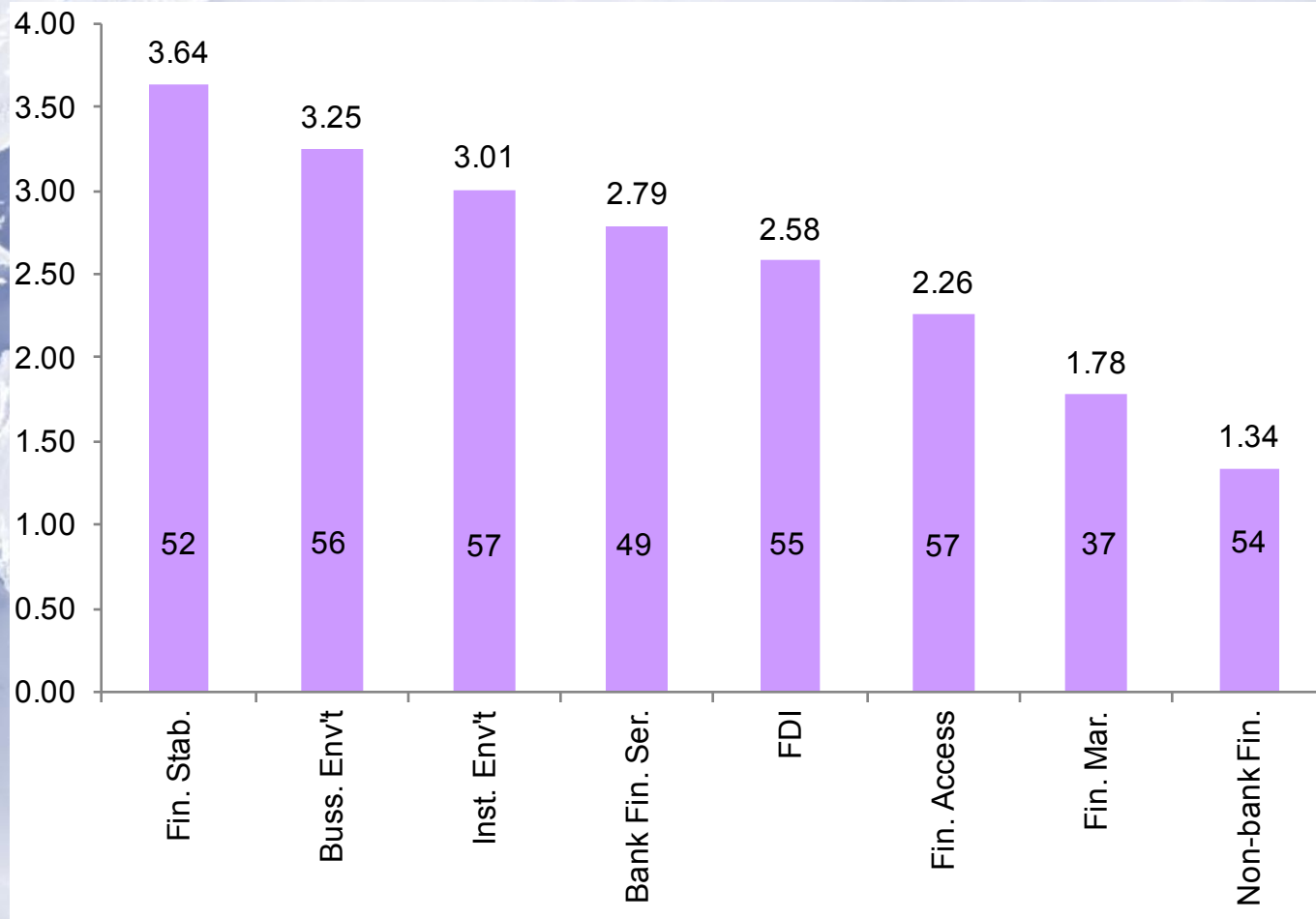
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Indonesia



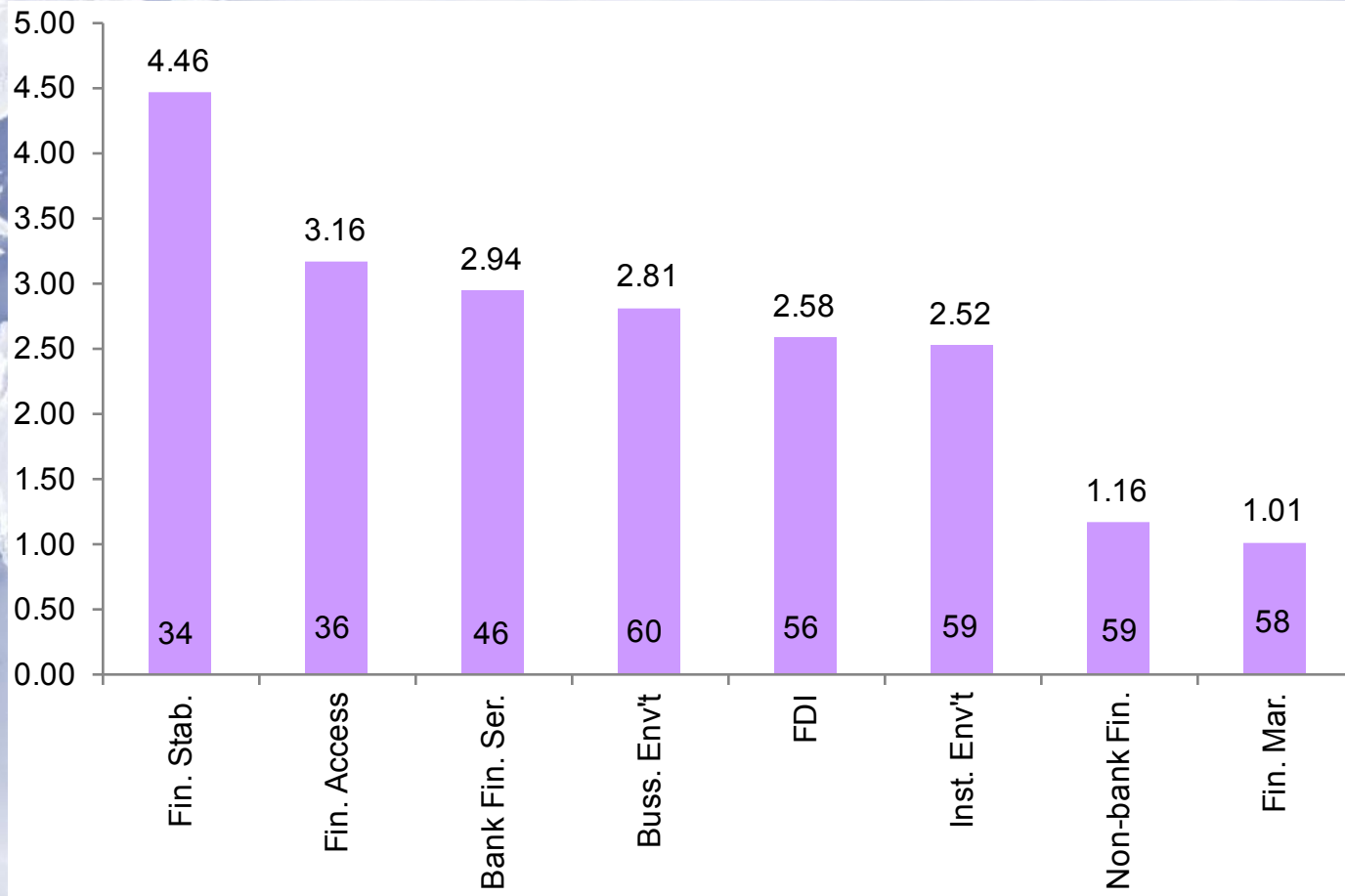
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Pakistan



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Bangladesh



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