Global and Asian financial oversight needs updating before the next crisis hits

Recent financial crises have highlighted the need to update the global institutions for financial and economic oversight that were founded more than 70 years ago, and their Asian counterparts that have been developing over the last 20 years.

The evolution of financial markets and monetary policy makes it increasingly obvious that the coordination between organizations as well as the organizations themselves need to be better suited to modern reality. Peter Morgan, co-chair of research at the Asian Development Bank Institute, is one of the editors of a recent ADBI book, *Global Shocks and the New Global and Regional Financial Architecture, Asian Perspectives,* and an author of two of its chapters. The book investigates the issues and suggests possible remedies.

> The European sovereign debt and banking crisis, which lasted from about 2009 to 2014 and, in some respects, remains with us today, provides a wealth of new experience in coordination between the IMF, regional institutions, and individual states in a complex environment of multiple national financial crises. At the same time, international financial markets have continued to evolve and grow more complex, presenting new challenges for the institutions charged with the supervision and regulation of financial stability. Implementation of ultra-low and even negative interest rate monetary policies in a number of developed economies, especially the US, the euro area of the European Union, and Japan, increased the volatility of capital flows.

Meanwhile, the institutions designed to deal with global financial and economic problems are aging.

> This relatively simple architecture, which worked well for a few decades, has now come under severe strain. One important source of that strain is the fact

> that the governance system of the old architecture does not reflect the shift from a unipolar world to a multipolar one. That shift accelerated after the global financial crisis of 2008–2009, most visibly in the increased economic power of Asia, especially the People's Republic of China and India.

Morgan and his co-authors say the policies that determine matters such as voting rights and contributions made to organizations such as the IMF were designed in 1944 and are still strongly protected by the original members. That despite a world that has seen dramatic changes in power and global finance. Some have even suggested that these multilateral institutions have contributed to crises rather than lessening them.

Asia began developing architecture to take on some regional coordination and oversight in the wake of the Asian financial crisis in 1997–1998. Gains have been made but progress has been slow.

> Twenty years after the Asian financial crisis and 10 years since the beginning of the global financial crisis, the development of a well-articulated framework bringing together global, regional, and national institutions to support economic and financial stability in Asia remains very much a work in progress. On the positive side, Asian economies have taken many steps to strengthen their economic fundamentals and reduce their vulnerability to external shocks. These steps include the adoption of more flexible exchange rates and more transparent and well-managed monetary policy frameworks; the development of local-currency bond markets; and the bolstering of their foreign exchange reserves. However, financial markets and cross-border capital flows continue to develop in ways that may increase financial systemic risks. This requires continued vigilance on the part of the national institutions in charge of macroeconomic policy and financial system stability. Regional-level institutions have developed too, but progress has been more measured.

Asia needs to step up cross-border coordination on financial regulations and improve the ability of the organizations and structures to provide safeguards and oversight for the region's economies and financial systems.

> Steps toward the development of closer and more institutionalized relationships between these regional institutions and their global counterparts… have been modest so far. The experience of the European sovereign debt and banking crisis showed the importance of coordinated efforts by global and regional bodies, but it also highlighted a number of related problems, notably the ad hoc and improvised coordination efforts developed in the heat of the crisis. Therefore, our strongest recommendation is that Asian regional institutions and their global counterparts take note of this experience and work proactively to develop a framework for closer cooperation before the next crisis erupts.

That was Peter Morgan, co-chair of research at the Asian Development Bank Institute, discussing ADBI's book, *Global Shocks and the New Global and Regional Financial Architecture, Asian Perspectives*. Morgan's co-editors were ADBI Dean Naoyuki Yoshino, and Pradumna Rana, associate professor at the S. Rajaratnam School of International Studies, Nanyang Technological University in Singapore. This is part one of a four-part series based on the book.

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