SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

SFC
證監會

The State-owned Assets Supervision and Administration Commission of the State Council (SASAC)
"From Wall Street to High Street – the Implications for China"

Eddy Fong
Chairman

23 October 2008

Introductory Remarks

It is always a pleasure for me to have an opportunity such as the SASAC forum to share and discuss with CEOs of State-owned enterprises recent developments in global financial markets that have implications for China.

The crisis which started in the subprime-related securities market has spread to the heart of the banking system. Recent weeks have seen unprecedented intervention by governments and central banks and, to a lesser extent, by securities regulators to restore market confidence and the orderly functioning of financial markets, in particular the credit market.

The primary concern of policy makers is to get the banking system to resume lending operations so as to minimise disruption to commercial and economic activities. Failure to do so runs the risk of a much deeper and prolonged recession. There is cautious optimism that the world would be able to avoid a severe economic contraction of the nature experienced during the Great Depression.

This is a once-in-a century financial crisis on a truly global scale. Hence, I would like to take this opportunity to recount how the crisis unfolded and the responses made by policy makers around the world. The regulatory framework and financial architecture have to be reviewed and restructured going forward after the dust has settled. Hence, today I am going to focus on recent and current developments in financial markets, and leave the issues of securities regulation to another occasion when the international community has made progress in strengthening the regulatory framework.

Today I will cover the following issues:

- A cursory review of the origins of the crisis
- The weaknesses revealed by the crisis
- The impact on financial markets, in particular in Asia
- The international response to restore market confidence
- The implications for China

Origins of the Crisis

The origins of the crisis can be attributed to the macroeconomic and market conditions that encouraged greater risk appetite.

- Years of stable economic growth, inflation that was under control, low interest rates and ample liquidity.
- Surging house prices that attracted more lending to this sector and fuelled the US housing boom in a self-reinforcing cycle.
- Savers and investors who had accumulated increasing wealth became more risk-tolerant in search of better returns.
- Financial engineering by financial institutions that dispersed risks across financial markets through the "originate-and-distribute" business model.
- Subprime borrowers were able to obtain housing mortgages that became the basis for the "originate-and-distribute" business model.

The "originate-and-distribute" model essentially repackages housing loans into mortgage-backed securities that are further securitised into structured products. These structured products are distributed and sold to a wide spectrum of investors in the global financial markets. The securitisation undergoes multiple rounds to ultimately create structurally complex and opaque financial instruments (e.g. Collateralised Debt Obligations, ie, CDOs, and CDOs of CDOs). The securities are sliced into tranches that carry different levels of risks for sale to investors of different risk appetite.

These structured financial instruments were, surprisingly, given "AAA" ratings, even though the underlying assets were of poor quality or were subprime housing mortgages. The first question to address is: How did the subprime borrowers obtain the loans? Fraud was involved and lending criteria were lax as lenders believed that house prices would keep on rising.

The "originate-and-distribute" model resulted in the wide dispersion of risks throughout the entire financial system. Diversification normally is a good thing. However, in the circumstances, given the complex and opaque nature of these investment instruments, the market did not fully understand the actual levels of all the risks in the system, and where the risks ultimately resided. Hence, when housing prices started to fall and borrowers to default, it spread fear and panic and the house of cards that was built on these subprime loans started to crumble.

Weaknesses Revealed by the Crisis

We can view the weaknesses under three broad headings:

- Incentive structures
- Risk management
- Pro-cyclical rules and regulations

Incentive structures

First, the compensation structure of financial institutions have created perverse incentives for staff to take on higher short-term risks to generate higher revenues and profits, without due regard to the longer-term risks and sustainability of profits to justify the risks. Bonuses are rewarded on the basis of current revenues and profits and not spread over the years of the transactions. Taking on higher risk assures higher rewards. The golden handshake granted to top executives in loss-making financial institutions have further heightened criticism.

Second, the "originate-and-distribute" model has transformed the traditional banking relationship into an arms' length capital market transaction that distributed risks across markets around the world. As financial institutions do not retain the risks in their books, they have less incentive to ensure that borrowers have the capacity to repay. This has enabled financial institutions to generate profitable revenue streams without due regard to the creditworthiness of the borrowers, giving rise to the tremendous growth of the subprime housing market.

Finally, regulatory loopholes that treated SIVs and conduits as off-balance sheet entities. This gave regulated financial institutions the incentive to set up such vehicles to conduct financial intermediation without the cost of regulation: regulatory capital and liquidity requirements, compliance and disclosure requirements and supervision. In reality, the regulated financial institutions remained exposed to the risks of these vehicles either through sponsorships or backstop contingency credit lines.

Risk management

First, there is the widespread use of similar valuation models in risk management. The result is that market players made the same observations and acted to enter or exit a particular sector of the market at the same time.

Such price-sensitive models work best under normal market conditions.

- However, in a buoyant economic environment the model tends to under-estimate risks.
- Conversely, during an economic downturn risks are over-estimated.
- In a situation of market stress, the models would reinforce the selling pressure into a downward spiral.

There are criticisms that the models have replaced common-sense judgment and experience. The stability and prosperity in financial markets led to complacency among financial institutions and a blind faith in the robustness of these models.

Another weakness is the practice of making decisions on the basis of the same information such as credit ratings and market prices. This has increased the tendency for markets to behave in a herd-like manner. The result is that prices could overshoot both on the way up or down. Questions have been raised on the methodology used by credit rating agencies and conflicts of interests.

Pro-cyclical rules and regulations

There have been concerns that bank capital requirements tend to be pro-cyclical, requiring banks to maintain lower capital in boom times and higher capital during downturns. This feature tends to encourage greater risk-taking by banks as asset prices increase, and for banks to deleverage in an effort to shrink bank balance sheets as increasing losses erode bank capital.

The accounting rules on fair valuation have also been criticised for its role in intensifying the stress for financial institutions. How does one establish fair values in the absence of active market trading and uniform valuation techniques for structured financial products? Critics point out that such valuation rule has depressed asset values and over-estimated the ultimate losses. The impact of such valuation losses has impaired balance sheets and increased recapitalisation needs. The pro-cyclical nature of valuation is also a concern during good times, as overly optimistic valuations elevate prices and increase risk-taking.

There are also calls to review provisioning rules to be more forward looking, as the current practice has a tendency towards under-provisioning in good times.

Impact on Financial Markets, in particular Asia

The direct impact of the initial subprime crisis on Asia has been minimal given the limited exposure in Asia to subprime-related products. However, Asia's stock markets did experience sharper correction than the major markets, as we will see shortly. As the crisis worsened beyond the subprime market, Asia's initial distance from the financial crisis changed dramatically as it became clear that no economy could totally escape the effects of a global recession.

Asia's exposure to subprime credit and structured products is limited due to the different financial landscape in Asia compared to advanced markets:

- Asia is very much bank-dominated, and its capital markets are focused on equities.
- In contrast, advanced markets are highly capital market-oriented with deep markets in bond and credit derivatives.
- Mature markets are more institutionalised, creating a natural demand for sophisticated financial instruments in OTC markets.
- The derivatives market in Asia is generally not well developed.

In addition, Asia is much less leveraged and much stronger post-Asian Financial Crisis.

- Asia is less leveraged:
  - Bank lending subject to prudential limits, e.g. 70% loan margin for housing loans.
  - Strong savings habit due to lack of official social safety net.
  - No shadow banking system and SIVs.
- Post-Asian Financial Crisis reforms have made Asia much stronger
  - Regulatory framework more robust
  - Financial infrastructure strengthened
  - Governance enhanced

– General caution among banks

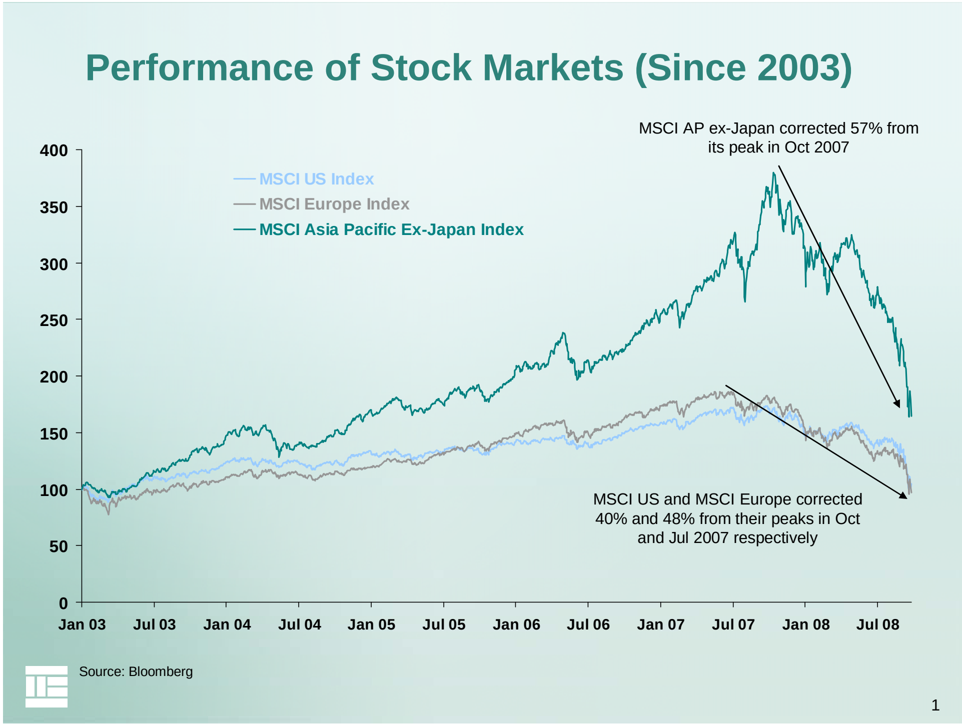
– Robust economic recovery

According to the IMF, Asia's limited exposure is due to lack of familiarity with products related to subprime mortgages. Another reason is that the high yields in some Asian economies have reduced the need to search for higher yields.

Based on data from Bloomberg in early September, global subprime-related losses amounted to US$511 billion. The bulk of the losses are in the major markets.

- Asia accounted for US$24 billion or 5 per cent of total losses.
  - Banks in Japan accounted for US$12 billion.
  - Banks in the Mainland and Singapore accounted for US$3 billion.

However, Asian equities suffered greater declines than the advanced markets. The following chart illustrates this point.

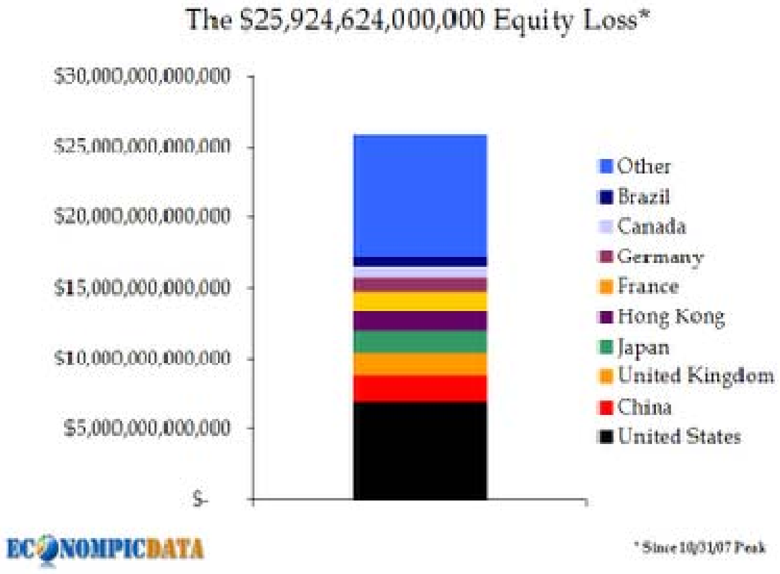


However, the crisis deteriorated rapidly since September, culminating in a "meltdown" in global financial markets in early October.

- The week of 15 September saw the end of the independent investment banks in the US following the bankruptcy of Lehman Brothers, tie-up of Merrill Lynch with the Bank of America, and the voluntary change of Morgan Stanley and Goldman Sachs into bank holding companies.
- AIG was rescued with a US$85 billion loan by the Federal Reserve.

- Washington Mutual became the largest bank failure in US history, and its assets were sold to JP Morgan Chase on 26 September for US$1.9 billion. The expanded JP Morgan Chase became the second largest US bank after the Bank of America.
- Wachovia was taken over by Wells Fargo after a tussle with Citigroup.
- Around this time until early October, banks in Europe faced collapse and rescue by their governments (Fortis, Dexia, Bradford and Bingley, Hypobank, three Icelandic banks). UBS was rescued by the Swiss authorities on 16 October.
- The US saw eight trading days of losses in early October, with the single largest point drop (777 points) that wiped out 22 per cent or US$2.4 trillion in market value.
- Australia ended the week on 10 October as a Black Friday (the AOI fell 8.2 per cent, the second biggest fall since the decline of 25 per cent in 1987).
- Globally, markets lost more than US$25 trillion from the peak in October 2007.
- Russia, Iceland, Indonesia, Peru, Romania, Ukraine and Austria suspended trading on their stock markets.

Wednesday, October 8, 2008
The $25.9 Trillion Global Equity Market "Correction"



Source: Bespoke Investment

Prior to the collapse of these financial institutions, there had been strong selling pressure on their stocks. Lehman Brothers and Bear Stearns had complained that there had been unusual short selling activities that depressed their stock prices, making it difficult for them to raise funding and capital. Similarly, financial institutions in the UK found it difficult to raise capital as their stock prices experienced sharp falls, also aggravated by short sellers.

When the US authorities decided not to bail out Lehman Brothers, it was forced to file for bankruptcy and that triggered a default on its debt. This caused the oldest US money market fund, the US$62 billion Reserve Primary Fund, to “break the buck” (fall below par). Money market funds have the reputation of being as secure as bank deposits and as a source of funding for banks. As investors realised that they could lose their principal in such funds, and banks thought to be systemically important could be allowed to fail, they pulled out their money.

The loss of confidence and heightened fears of counterparty risk led to the freezing up of the wholesale money market. The result was a shut-down of the inter-bank money market and corporations were unable to roll over funding from the commercial paper market to meet their operational needs. The 3-month London Inter-Bank Offer Rate for US dollars (LIBOR) rose to a 2008 high of 4.82 per cent, and overnight LIBOR hit an all-time high of 6.88 per cent.

Asia's stock markets also fell sharply, aggravated by foreign investors pulling out of these markets in order to meet their own liquidity needs in the major markets. The outflow of such funds put downward pressure on Asian currencies, in particular in Indonesia and Korea. Korean banks which had relied on foreign funding faced difficulty in rolling over their foreign borrowings after they were placed on negative watch by rating agencies.

International Response to Restore Market Confidence

Response by securities regulators

As stock prices continued to fall, financial institutions were caught up in a vicious cycle. As their stock price fell, financial institutions had difficulty raising capital. Meanwhile, their ratings faced the prospect of a downgrade if they are unable to recapitalise. A downgrade would cause investors to rebalance their portfolios and sell the affected financial stocks, and this would further depress their stock prices and ratings. This in turn would make them less attractive in raising new capital. A solvent bank in this situation could easily face a liquidity squeeze, and in the worst case scenario this could quickly lead to insolvency.

As allegations of manipulative short selling increased, securities regulators responded by tightening rules on short selling. The measures are summarised in the table below.

Recent International Initiatives on Short Selling
* Existing measures, no change

	Financial Stocks	All Stocks
Ban on naked short selling only	France	Netherlands *Mexico** *Japan** *Hong Kong** *Spain** *Switzerland**
Ban on all short selling (covered and naked)	Germany UK (>0.25% net short position) USA Italy	Australia Canada Taiwan Korea

Hong Kong allows only regulated short-selling. Naked short selling is not allowed.

- The seller is required, at the time of placing the order, to identify it as a "short selling order" and to provide an assurance in the form of a document that the sale is "covered".
- An intermediary who receives a "short selling order" must ensure that he obtains the documentary assurance from the seller prior to transmitting the order to the Stock Exchange of Hong Kong (SEHK) for execution and must retain the confirmation for at least 12 months from the date of the transaction.
- Furthermore, short selling is allowed only in a rising market, as short selling below the current best ask price is prohibited.
- Strict enforcement of T+2 settlement (i.e. compulsory buy-in on T+3) and the imposition of a default fee of 0.25 per cent on a settlement failure help to deter attempts to undertake illegal naked short selling.

Singapore does not have any restrictions on short selling. It recently increased the penalty for failed delivery of stocks to 5 per cent of the value of the trade, subject to a minimum of S$1,000.

On 5 October 2008, the CSRC announced the launch of the margin trading and short selling pilot programme. The exact start date would be announced later. Initially, the pilot programme is limited to approved securities firms during the trial period. The programme will be extended gradually to all securities firms following the review of the pilot programme. Some market commentators view this positively, as it demonstrates the commitment of Mainland China to continue with its reform programme despite the market turmoil. The recent developments in short selling activities and regulatory response of various markets would provide invaluable lessons.

As mentioned earlier, Russia, Iceland, Indonesia, Peru, Romania, Ukraine and Austria closed their stock markets as their markets suffered sharp declines. The measures were taken to buy some time to introduce stabilisation measures or to restore orderly trading.

Response by Central Banks and Finance Ministers

On the part of the central banks and the Treasury/Finance Ministers, initial actions were piecemeal and unco-ordinated. The rejection by the US Congress of the US$700 billion bail-out plan on 29 September sent shockwaves around the world. The situation was salvaged by the US Senate when it passed a modified package that Congress later also accepted.

In Europe, there was initially unilateral action which encouraged depositors to move their funds to jurisdictions that gave blanket guarantees. It became clear that market confidence had to be restored quickly so that markets can begin to function, and it was a global problem requiring a global solution. After that, the international response became more co-ordinated and coherent.

The European Central Bank, Bank of England, Swiss National Bank co-ordinated action to provide unlimited US dollar funding to banks at fixed rate for up to 84 days maturity. The Federal Reserve Bank and Japan also committed to provide dollar liquidity. In addition, France, Germany, the US and UK introduced measures to guarantee interbank lending in efforts to unlock the credit market.

In Asia, central banks also acted to provide liquidity, including US dollar liquidity, to their markets. Reserve ratios and interest rates were lowered. Australia, New Zealand, Taiwan, Hong Kong, Singapore and Malaysia guaranteed bank deposits.

The UK's initiative was viewed as the most comprehensive as it tackled the problem on three fronts: guarantee of bank deposits coverage increased and bank debt, provision of liquidity to banks and recapitalisation of financial institutions. In order to restore confidence in banks, the US finally but reluctantly acted to provide US$125 billion capital to nine US banks, with the possibility of further capital injections to thousands of smaller banks.

On the part of Hong Kong, the HKMA introduced five measures to provide liquidity assistance to licensed banks with effect from 2 October. The measures were introduced to alleviate a general shortage of interbank liquidity caused by some concern among licensed banks in Hong Kong over the credit worthiness of each other. The measures would ensure that the banking system would continue to function effectively. The assistance would be available for a period of six months.

On 14 October, the government announced two further measures to shore up confidence. The measures take immediate effect and will be reviewed at the end of 2010 to see if an extension is needed in light of global market conditions.

- First, guarantee the repayment of all customer deposits held with all Authorized Institutions in Hong Kong.
- Second, the establishment of a Contingent Bank Capital Facility (CBCF) for the purpose of making available additional capital to locally registered licensed banks.

As a result, we have seen an increasing convergence in the measures taken as the efforts became more co-ordinated, coherent and consistent at the global level. Convergence was necessary to provide markets with the same level of assurance and avoid arbitrage and capital flight to jurisdictions that are considered to provide greater protection.

The reaction of markets to announced measures by each jurisdiction provided useful feedback to policy-makers in formulating and fine-tuning their measures. These measures have begun to work in helping to restore market confidence.

- The LIBOR has eased in response to these measures.
- Most importantly, banks can begin to resume lending and help liquidity to gradually return to financial markets.
- This should help to avert a much deeper recession that could happen if credit remains frozen.
- The stock markets would likely remain volatile given recession fears and expectations of much lower corporate earnings.

Implications for China

Given the scale of this crisis, all economies would be affected to a greater or lesser degree. World recession is unavoidable, but the intensity could be reduced if sufficient and necessary measures are taken.

There is a growing view that the impact on China would be much less severe compared to other economies. In its latest World Economic Outlook, the IMF expects China's growth to slow down to 9.7 per cent in 2008 and 9.3 per cent in 2009. Still a pretty strong growth by international standards, although lower than the double digit growth that China has enjoyed for many years. One research house expects China to experience a soft landing, with growth ranging from 8 – 8.5 per cent in 2009 – 2010.

Strengths of China

China has several factors in its favour to withstand the global financial crisis:

- Insulated from global financial markets as its financial sector is very domestically-focused and capital controls are in place.
- Impact of subprime fallout on China is limited given that the direct exposure is manageable, and more importantly, as Fannie Mae and Freddie Mac have been rescued by the US government.
    - Chinese authorities' holding of Fannie Mae- and Freddie Mac-related bonds: US$300-400 billion (around 20% of total foreign exchange reserves).
    - Fannie Mae, Freddie Mac bonds invested by commercial banks: US$25.3 billion.
    - Investment in Lehman-related bonds by commercial banks: US$0.67 billion, which is relatively insignificant.
    - CIC bought 9.9% stake of Morgan Stanley in December 2007 for US$5.5 billion. Although the stock price has fallen sharply, the US government's assurance to provide necessary liquidity and capital would be positive for this investment.
- Foreign exchange reserves of US$1.9 trillion and fiscal surplus to finance domestic stimulus.
    - Spending on infrastructure (roads, transportation, bridges, energy, reconstruction of Sichuan) to increase efficiency and capacity.
- Total foreign borrowing is manageable, with negligible risk of sudden unwinding of foreign debt to disrupt domestic investment. [1]
    - 12 per cent of GDP at the end of 2007, of which 7 per cent is accounted by short-term borrowing.
    - Foreign borrowing by non-financial enterprises fell from US$10 billion at the end of 2002 to US$4.6 billion.
    - Registered foreign liabilities of Chinese financial institutions rose from US$33 billion in December 2002 to US$83 billion in March 2008, but they represent only 1.6 per cent and 1.4 per cent of the domestic deposit bases during these two respective periods.
- Prudent level of leverage[2]
    - Government's domestic debt is 15 per cent of GDP, down from 20 per cent at the beginning of the decade.
    - Household savings are 75 per cent of GDP, and mortgage loans amount to only 35 per cent of the value of home sales during the past seven years.

---

[1] Arthur Kroeber, *Apres Le Deluge*: China in the Credit Crunch Aftermath, GaveKal Research, October 15th, 2008

[2] Arthur Kroeber, *Apres Le Deluge*: China in the Credit Crunch Aftermath, GaveKal Research, October 15th, 2008

– Corporations are profitable, and if profits suffer they are likely to be in better shape than in the 1997- 999 recession.

- Continental economy with a huge domestic market

  – Great potential to promote domestic consumption as an engine of growth.

- Trade surplus would continue although at a slower pace

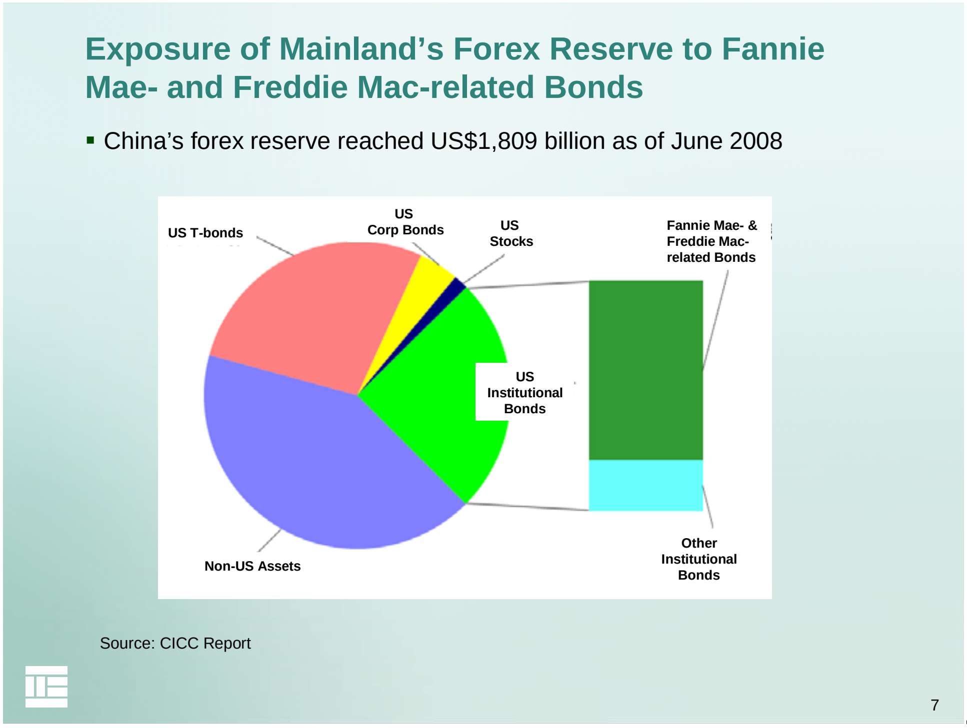
  – Provides some relief to China’s own efforts to cool the overheating economy.
  – Helps to reduce pressure on rising wages.
  – Slowdown in exports would reduce the burden of managing the fast growing foreign exchange reserves.

Potential vunerabilities of China

China’s huge export success has contributed to the rapid growth in its foreign exchange reserves, which today stands at US$1.9 trillion. As the chart below shows, the bulk of China’s foreign reserves are in US dollar assets. This exposes China to valuation gains or losses depending on the strength of the US dollar.

The US currency is widely held by central banks around the world. When the dollar weakened in recent months, the exchange rate losses were a concern both to holders of US dollar assets and the US.

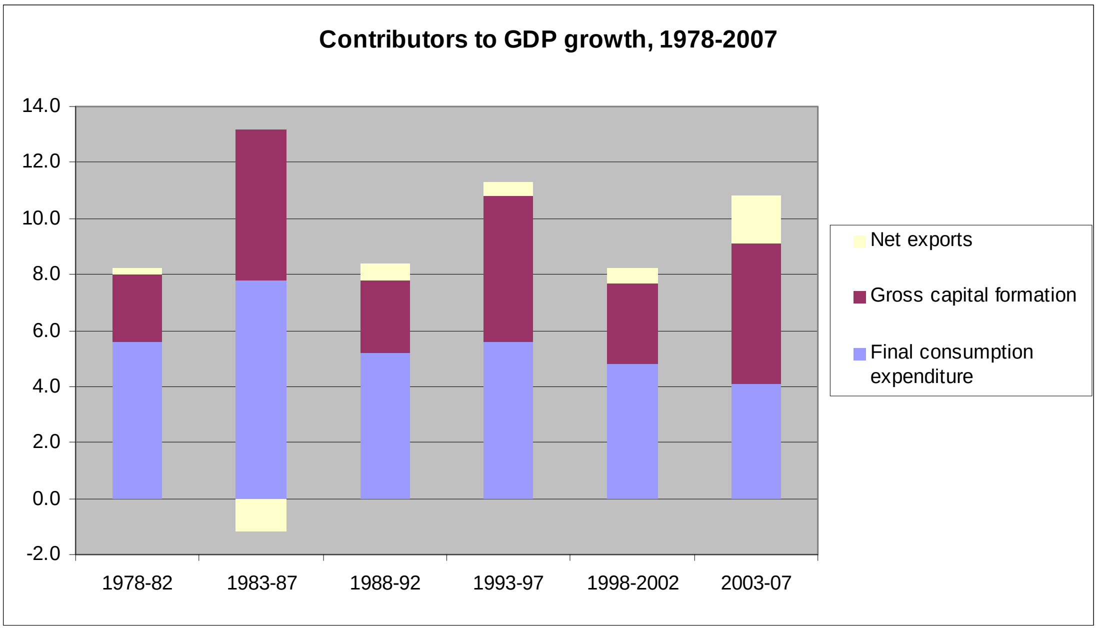
- If holders choose to sell their US dollar assets and switch to other foreign assets, they would have to immediately realise the exchange rate losses.
- The US was concerned that going forward it would have difficulty in selling US Treasury Bills and Bonds if central banks increasingly diversified their reserve holdings into other currencies.
- This situation demonstrates the interdependence among countries and how their fortunes are inter-related.



One of the concerns for China is that its exports would take a big hit as the world enters into deeper recession. China's export value is equivalent to 37 per cent of GDP and the current account exceeds 10 per cent of GDP.

One researcher[3] has dismissed concerns that China's reliance on "export-led" growth would make it extremely vulnerable. Looking at the three decades of Chinese reform (see chart below), Kroeber found that:

- Net exports were not a major factor in explaining the three major upswings in the economy beginning in 1983, 1993 and 2003.
- However, what caused the swing from boom to bust was due mainly to a bust in domestic investment.
- Even in the last three years when net exports made the greatest sustained contribution to growth, the contribution was only 2.3 percentage points. The main contributor to growth during this period was domestic demand which accounted for 9 percentage points of growth.



Over the last 30 years, China had two episodes of recession in 1989 and 1998. Kroeber found that the recession was not really that severe compared to other countries.

- Typically each recession had a year of sub-trend growth: -2 per cent in 1989, and around -5 per cent in 1998.
- But over a five-year period centred around these two trough years, the average growth was +6.2 per cent from 1987 – 1991 and +6.4 per cent from 1996 – 2000.
- In other words, a Chinese-style hard landing is one year of very slow growth and a five-year average growth rate of about +6.3 per cent.

---

[3] Arthur Kroeber, *Apres Le Deluge:* China in the Credit Crunch Aftermath, GaveKal Research, October 15th, 2008

The two episodes of hard landing were caused by three factors: triple whammy of cyclical slowdown, an exogenous shock, and a severe structural problem.

- 1989 triple whammy
  - Cyclical slowdown due to tighter monetary policy to combat earlier years of high inflation.
  - Loss of momentum in reforms after 1989 political event.
  - Two-track pricing of commodities in early stage of reform created inefficiencies.
- 1998 triple whammy
  - Cyclical slowdown from tight monetary policy to curb the investment boom of the 1990s.
  - The Asian Financial Crisis that caused the effective revaluation of the Renminbi and flat growth in exports.
  - Half of the State-owned enterprises (SOEs) were loss-making, and profits of Chinese industry amounted to only about 1 per cent of GDP. Banks were burdened with non-performing loans amounting to about 50 per cent of banking assets.

Looking at the risks to growth today, two of the three factors that caused the last two episodes of a hard landing in China are present. First, there is the threat of a cyclical downturn due to the global recession. Second, the exogenous shock is the global financial crisis. On these two factors, we have discussed earlier that the impact might not be that severe.

Notably, Kroeber notes that the third factor, that is the structural problems that contributed to the earlier periods of recession, is not present today in China.

- The reform of the SOEs saw the elimination of 50 million jobs from 1995 – 2005.
- Chinese industry now comprises a healthy mix of large-scale, mainly SOEs, and small-scale, mainly private, enterprises.
- Industrial profits rose to 11 per cent of GDP, of which 5 per cent represents the profits of the state sector.
- Prices are market determined with the exception of some energy prices.
- Chinese banks have been profitable in the last few years.
- Industrial loans are granted to going concern enterprises.
- Banks have significant exposures to overheated property sector but are unlikely to impair their balance sheets.
- A flexible labour force despite recent labour protection measures.

Concluding Remarks

On the domestic front, China is well-placed to weather the financial tsunami. The supporting factors, in no particular order of importance, are:

- Relatively insulated from global markets given its domestic focus and capital controls;
- Huge foreign exchange reserves;
- Manageable foreign borrowing;
- Prudent level of leverage in the economy;

- Continued trade surplus, although smaller;
- Fiscal surplus allows spending to stimulate the economy;
- Much strengthened banking system after the bank restructuring;
- Stronger, profitable and efficient SOEs after the reforms;
- Flexible corporate sector that has enjoyed good profits;
- Favourable demographics;
- High productivity;
- Large continental economy with big domestic market that could be tapped as the consumption engine to sustain growth; and
- Commitment of the government to reform with pragmatism.

China also has the opportunity to take advantage of the slowdown in world growth to catch up with upgrading its infrastructure and to invest in higher technology to enhance its efficiency and move up the value added chain of production.

At this point in time, the assessment of many is that China would not be as badly affected compared to the rest of the world. However, given the uncertainty that still prevails, one cannot really tell how much quickly confidence can be restored, or whether the crisis could take a turn for the worse. Unless the global situation worsens dramatically, China should be able to weather this recession relatively better than its two earlier episodes of recession.

On the international front, the global financial crisis has increased understanding and appreciation of different models and approaches to managing economic and financial development. There is no one-size-fits-all solution for the whole world. The country-specific circumstances determine the pace of reform and development.

There is greater understanding today of the inappropriateness of the measures that was prescribed for Asia during the Asian Financial Crisis (e.g. closure of banks, no blanket guarantee of deposits to restore confidence, raising interest rates sharply to defend currency). Extreme and extraordinary times demand unorthodox and extraordinary measures.

The financial crisis has clearly demonstrated the forces of globalisation and its impact. Regulation and policies are national in scope and reach, but the problems in global financial markets demand a global solution.

The global financial architecture would require massive overhaul and strengthening to ensure its relevance and effectiveness in coping with today's economic and financial market realities. China as a major economic player surely would have a major role to play in shaping the new world economic and financial order.

End