

**The Asian Financial Crisis Revisited:
Challenges Over the Next Decade
Trends in Asian Financial Sectors
June 20, 2007**

Opening Remarks

Distinguished guests, ladies, and gentlemen, I'm Janet Yellen, President of the Federal Reserve Bank of San Francisco. It is my great pleasure to welcome you to the Bank's conference on "Trends in Asian Financial Sectors."

This is the first of two major conferences we are holding as part of our year long series of events organized around the tenth anniversary of the Asian financial crisis. The second conference, scheduled for September sixth and seventh, will be devoted to exploring banking in Asia. We expect that both conferences will help stimulate public dialogue and discussion about the stability and resiliency of Asian financial sectors today, current or potential vulnerabilities, and challenges in the future.

These issues are of particular interest to me for both historical and present-day reasons. As many of you may be aware, ten years ago, I was the Chair of President Clinton's Council of Economic Advisers. Once the crisis first hit in the summer of

1997, and then spread from country to country, there was considerable concern about both its impact on the U.S. economy and its impact on the affected nations. U.S. markets certainly shared these concerns: in October 1997, the Dow Jones Industrial Average plunged over 500 points. For the Asian nations most associated with the crisis, the toll in both human and economic terms was enormous: in 1998, these countries saw their economies shrink by an average of 7.7 percent and many millions of their people lost their jobs. More broadly, there was concern that the crisis had revealed new sources of risk in the international financial architecture. Now that I am a Reserve Bank President with responsibilities for overseeing financial institutions, I have an even greater awareness of how these issues remain vital for maintaining financial stability today. And, as the President of this *particular* Reserve Bank, with its well-developed expertise in the study of Asian economies and financial markets, these issues are especially pertinent for us to address.

Since the crisis, there has been a vast amount of research, and many have written about the “lessons learned,” myself included. I believe there is quite general agreement that two of the key lessons are the importance of sound financial policies, such as strong accounting principles and adequate regulatory oversight, and the importance of sound macroeconomic policies, including exchange rate

flexibility. The good news is that, since the crisis, the Asian countries as a group have made great progress in these areas. Still, there are reasons to believe that continued vigilance will be required to prevent or ameliorate crises in the future. First, there is some risk that the policy reforms that were achieved in the wake of the disastrous crisis could be scaled back in the current era of relative regional prosperity. Second, private agents may respond to the relatively tranquil current economic environment by dropping some of the prudent investment practices that were adopted following the crisis.

Because of the profound impact that the crisis had on the people and economies of the region, it is worthwhile to explore the fundamental causes of the instability, the recovery paths countries have adopted, and any current vulnerabilities that could undermine the stability of the financial system.

I'm very pleased that this conference has brought together some of the most expert observers and practitioners from the US and Asia to help us address these questions. Many of our participants were involved directly or indirectly in those turbulent events. For example, we have policymakers who faced the challenge of trying to develop or implement policies to stabilize the sudden outflow of capital from the region. We also have advisors from international financial institutions

who helped develop support programs and technical assistance. We have academics who have analyzed the root causes of the crisis and effectiveness of response mechanisms. Finally, we have individuals from the private sector who faced the challenge of trying to protect their investments. All of these people remain keen observers of Asia today, and I am sure that they will be able to shed valuable light on a number of critical questions. Let me list just a few that will be addressed in the next two days.

- What is the outlook for continued growth in Asia?
- What are some of the challenges to that growth that lie outside the usual economic and financial measures—in demographics, the environment, in political decisions made domestically or as a result of national security threats?
- What is the strength of financial market infrastructure, including laws, accounting standards, and the norms of corporate governance?
- What are the trends in Asian trade, economic, financial and monetary integration?