ASIA'S NEWFOUND CONFIDENCE

The third and last of the Thomson Reuters Asian Pricing Forum events was held in Singapore on Thursday September 23rd. I caught up with James Mudie, co-founder and managing director of Billarook, a firm engaged with senior executives at financial institutions in Asia on asset-related and regulatory issues, a speaker on the panel, to talk about the main trends he is seeing in the region.

Asian regulators and financial institutions are emerging from the global recession with a great deal more confidence than they had before, according to Mudie. As a region, Asia weathered the financial crisis relatively well, and there has subsequently been a distinct shift in the balance of global economic power. Asia was once something of an afterthought for European and US-originated investment banking products—where the scraps, or leftovers would be sold into Asia. Now, investment banking firms trying to continue on that model are discovering that investors in the region are more empowered and are driving the negotiating process much more than before, he says.

Asian firms are more skeptical of information quality, the motivations of investment banks and the types of products they are selling. “Asian investors are considerably more demanding and ultimately aware of the conflicts of interests that investment banks are built on, and much more skeptical and more discerning clients than they have ever been,” Mudie says. “It's becoming a much more difficult process for the traditional investment banking model—Asian financial institutions have a much greater bargaining position and greater leverage and they are certainly willing to use it. They are not passive and certainly not price takers in that context any more,” he adds.

Regulation

Asian regulators are currently forging ahead with new domestic rules and regulations, in particular Hong Kong, Singapore and Japan, says Mudie. There is no pan-Asian regulator which means the individual countries in the region are free to implement their own tailored responses to the financial crisis in a relatively short time frame. US and European regulators in contrast are often slowed down by a more consensus-oriented approach, for example within the G20 or over the Basel accords. The European Union in particular must align the interests of 27 countries before it can pass any new directives.

Asian regulators are also less inclined to mimic the approaches of their Western counterparts than they once were. “Even though they have scale, it's a lot harder for European and US regulators to maintain the moral higher ground that maybe they have traditionally been able to maintain—that's just a harder sell these days. The Asian economies have weathered the storm pretty well,” he says.

Lessons learned from the Asian financial crisis a decade ago put the region on a firmer footing than the West when the financial crisis struck. Direct exposures to credit default swaps and more recently European sovereign debt were minimal, although Asian economies have felt some pain from the weakening US and European economies, due to their export-heavy economies.

Asian growth

The big question will be to what extent can the intra-Asian growth story manifest itself and take up some of the slack from a slowdown in the eurozone. “The Asian region has some of the largest sources of capital in China and Japan, which are looking to diversify away from Europe and the US—and particularly exposure to the US dollar—and have already started to look a lot closer to home for investment opportunities,” he says.

In contrast to the European and US markets, Asia is seeing a tremendous inflow of capital, a dynamic that has been very much accentuated by the issues in Europe and the state of the US economy. “It really is perceived both at the institutional and the speculative, hot-money end of the spectrum, as one of the only real growth opportunities. As long as the rates of growth in the Asian region maintain their current levels, it will continue to attract capital,” he says.

Increased cooperation

As an increasingly significant flow of investment capital finds a home in Asia, Mudie believes this could drive a new era of regional coordination, with an increased role for the larger economies in the region to oversee the broader region of economic cooperation, much like France and Germany in Europe. This would require leadership from the region's two largest economies China and Japan (now the world's second and third largest economies after the US, respectively), and for those countries to overcome their recent political disputes.

China and Japan have a complicated history with wounds over the Japanese occupation of China still relatively fresh in the national psyche. China is also increasingly flexing its economic and geopolitical muscles, asserting itself in a region it newly dominates. Such matters complicate the issue, but Mudie says it is definitely in each country's mutual interest to work towards increased economic cooperation, which will also bring about a larger role for the Chinese renminbi and the Japanese yen.

Currency issues

The issue of currency management—or manipulation, depending on whom you ask—has caused further diplomatic tensions, this time between the US and China. But however controlled the Asian currencies may be, it will be hard for them not to appreciate against a weakening euro and dollar, Mudie says.

“The Chinese have to let the currency appreciate—both Japan and China have made it clear they are not particularly happy with any rapid appreciation of their currency and other more developing Asian countries will be particularly concerned about their currencies appreciating. But with the depreciation of the euro and the US dollar, some appreciation in this area is unavoidable,” says Mudie. The question will be how rapid—and on a relative basis within Asia, who will take the most pain. So far it has been Japan, he says. What impact this will have on the Asian growth story also remains to be seen.

The global financial crisis has ushered in a new East-West dynamic, where Asian institutions and regulators are no longer price takers, trusting in the knowledge and experience of their European and US counterparts. The next stage in the region's ascension will be determined by whether the individual countries can put aside traditional differences and work together towards greater economic cooperation.

By *Emily Fraser*

Back