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Session 2: Towards a Better Framework for Supply of Funds in Asian Financial Markets

The Crisis, Financial Innovation and the Supply of Risk Capital

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abstract

The global crisis was caused by the under pricing of risk, particularly in the products associated with investment banking, such as structured products and OTC derivatives. The economic costs have been high and this has led to regulatory changes and changes in bank behavior and strategies. This crisis has now contaminated traditional domestic banking and sovereign borrowing, both of which function poorly in a recession. The situation is very different, however, in various parts of the world. The USA has made the most progress of the crisis countries, and the storm is now centered more firmly on Europe, where the weaknesses of the common currency are being exposed. Asia, with its industrial revolution, regulations, controls and managed exchange rates is in many ways facing the opposite problem. Some concerns are pointed out and some policy conclusions are drawn.