

Joseph Yam: A broad-brush economic picture of the Asia-Pacific region

Opening remarks by Mr Joseph Yam, Chief Executive of the Hong Kong Monetary Authority, at the 2003 Australasian Macroeconomics Workshop, Hong Kong, 22 September 2003.

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Good Morning,

It is a great pleasure for me to open the 2003 Australasian Macroeconomics Workshop and to welcome all of you to Hong Kong. I understand that this is the eighth time the workshop is being held, and that it is the first time you are meeting outside of Australia and New Zealand. I am delighted that you have chosen Hong Kong. We are now, I hope, entering a period of optimism for our city after a very tough few months, and there are continuing structural adjustments in Hong Kong arising from the economic integration with the Mainland, which is growing rapidly, bringing challenges as well as opportunities: it is a very interesting time to see Hong Kong.

It may surprise you that the HKIMR decided to follow the splendid precedent set by the Reserve Bank of New Zealand in 2002 and host this year's workshop. But it should not be too much of a surprise. Rather than giving a traditional lecture this morning, let me explain to you why, as Chairman of the Board of the HKIMR, I feel that conferences such as this are so important. But I should first say this: while the HKIMR was established by the HKMA, its Council of Advisors, of which I am not a member, determines its programme of activities. It therefore enjoys professional independence. Thus, I was not a party to the Council's deliberation of, and its decision to support, Professor Crosby's proposal to hold the Workshop here. But I am very pleased that the Council of Advisors decided to do so.

I will start from the observation that Hong Kong's economy - like many Asian economies - is a small ship in a big ocean. While the weather today may be placid, the winds can pick up without warning and the waves can be forbidding. You all know about the series of massive speculative capital flows that Asian economies, and even Australia and New Zealand, were exposed to during the Asian financial crisis, and how Hong Kong finally rode out that storm. In times such as those, policymakers naturally ask what is the right course to steer, what are the right policies to follow. One policy is clear - to ensure that the boat is as seaworthy as possible. This, of course, we have sought to do. Following the Asian financial crisis we took a large number of measures to improve the functioning of the currency board, and the efficiency of the financial infrastructure in Hong Kong more broadly. We also continue to monitor and improve our system of banking supervision, in recognition of the fact that one reason we did ride out the Asian financial crisis was undoubtedly that banks were strong.

Some observers have suggested throwing some sand in the wheels of international finance. By limiting capital flows, the argument goes, it becomes easier for central banks to maintain monetary and financial stability in turbulent times and to cope with the potency of international finance that comes with globalisation. Indeed, control in one form or another has become quite popular in this region. But, for an international financial centre such as Hong Kong, whose main source of income stems from an ever-growing economic and financial integration with the rest of the world economy, such a policy is, to us, clearly undesirable. Moreover, the Basic Law of Hong Kong also bars any foreign exchange control policies and any restrictions on the free flow of capital within, into and out of Hong Kong.

Others suggest that the Hong Kong economy would be better able to withstand economic shocks and disturbances if the currency board was adjusted or gave way to something else: different observers have different pet ideas and there seems to be no agreement on what that alternative would be. I have spoken a great many times on this topic and I do not propose to do so again today. Let me just say that I remain convinced that the currency board has remained a fundamental source of stability for Hong Kong in the 239 months of its existence since it came into being in October 1983.

What else can be done to ensure monetary and financial stability not just in Hong Kong, but also in this rather fragmented and diverse region, in terms of geography, size of markets, culture and stages of economic development? To my mind, much greater regional co-operation in the monetary and financial arenas should be on the policy agenda. Such co-operation can take many forms, ranging from increasing and more open interactions between central banks in the Asian region for the purpose of enhancing the stability, integrity, diversity and efficiency of financial intermediation in the region, and admittedly very much further down the road, to serious discussions of whether monetary integration and the establishment of an Asian Monetary Union should be a goal.

But to do that, we need to build stronger personal links between economists working on monetary and financial issues at universities, in central banks and in international institutions such as the IMF and the BIS. By debating and discussing and, yes, disagreeing, we can over time generate much more clarity about what path we need to follow in enhancing monetary and financial stability in Asia and elsewhere.

Some may wonder why I include academic economists in that list. I do so for three important reasons.

First, research undertaken in universities very frequently serves as a starting point for work undertaken in central banks. One of you may just have written a very good paper on the sensitivity of the New Zealand economy to international business cycles or the determination of capital flows between Thailand and the rest of the world. It may well be that this paper, unknown to the author, triggers research at the Hong Kong Monetary Authority on how sensitive our economy is to external factors or on the determination of capital flows in and out of Hong Kong.

Secondly, academic research undertaken in a free and open manner, and presented at conferences such as this, serves to improve the quality of research in central banks. There is a strong presumption in my mind that competition, no matter whether it be in the market for airline tickets or in econometric models of exchange rates, are beneficial to consumers - and central banks are large consumers of economic research. More directly, I know that some of the HKMA's research staff will present papers here, and I am sure that your comments on the papers will trigger ideas for how they could be improved. Next time, they will be better.

Thirdly, universities are the source of staff for central banks. We do hire your students and sometimes we are even able to hire academic researchers.

In sum, the Asia-Pacific region needs more co-operation and exchange of ideas in the monetary and financial sphere, and to achieve that it needs stronger links between economists working in this area in central banks, international institutions and universities. This is exactly what the Australasian Macroeconomics Workshop is all about, and I am delighted that we could tempt you to come to Hong Kong for this year's meeting. Thank you and let the fun begin.