

Joseph Yam: The Asian crisis - lessons for the future

Opening remarks by Mr Joseph Yam, Chief Executive of the Hong Kong Monetary Authority, at the HKMA Fifth Distinguished Lecture: "The Asian Crisis: Lessons for the Future", Hong Kong, 21 May 2002.

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I am delighted to welcome all of you to this fifth HKMA Distinguished Lecture, and to introduce our speaker, Dr Stanley Fischer, and our discussant, Dr Stephen Grenville.

The title of Stanley Fischer's lecture is "The Asian Crisis: Lessons for the Future." In a few weeks' time we shall be marking the fifth anniversary of the outbreak of the Asian financial crisis - a day or so, incidentally, after we celebrate an entirely unconnected event, the fifth anniversary of the establishment of the Hong Kong SAR. Asia and the world have gone through many other ordeals since 1997, so that the crisis perhaps seems much further in the past than it really is. But its effects - both physical and psychological - are still with us. It is important that we continue to study the causes and effects and to see what lessons there are for the present. I have spoken at length on many previous occasions on the Asian financial crisis, and I intend today to sit back and listen. Let me, however, make three very brief observations.

The first is that, five years on, very limited progress has been made in resolving one of the fundamental problems that helped make the crisis so devastating for so many economies: a deficient global financial architecture, which has been outgrown by the markets that use it. There have indeed been some reforms both internationally and in individual economies, and there is a much greater alertness to the threats to stability posed by volatile, high-velocity international capital flows. But much still remains to be done, and as capital flows get bigger, the risk of further crisis remains. Paradoxically, the risks are increased by a false sense of security brought on by two or three years' absence of the kind of contagion that shook so many parts of the world in the nineties.

The second observation is that, in the absence of international solutions, a number of economies in the region have adopted local approaches to the problem. Some have chosen to go slow or even step back from financial liberalisation through introducing or tightening restrictions and controls. While understandable - and in some cases effective as short-term measures - such an approach is regrettable because it shuts off many of the benefits, as well as the dangers, of globalisation. In Hong Kong, where controls of this kind are not practical because of the realisation that global links supply our lifeblood, we have taken a different approach. We have chosen to enhance policy credibility through greater transparency and through strengthening and tightening up our rule-based monetary system.

My third observation is that those who said that the Asian crisis was the death knell of Asia as an economic force - and there were many of them - seem to have been wrong. There has been remarkable resilience, even in the worst-hit economies, and a will to reform and restructure that has helped put a number of economies back on their feet even during a time of global economic downturn. Progress has not been evenly spread throughout the region, and there are still causes for anxiety. But, as the world economy shows signs of recovery, the prospects for the region, if not dazzling, look somewhat brighter.

It is now my great pleasure to introduce our speaker and discussant. From the late eighties until very recently, Stan Fischer has been very much at the centre of world economic and financial crisis - and its solutions - first at the World Bank and then as First Deputy Managing Director and subsequently Senior Adviser at the IMF. He has played a practical role - often a crucial one - in addressing, preventing and resolving crises, and he has written extensively on the subject. Asia, no less than other regions of the world, has benefited from his expertise, and we are very honoured to have him here to talk about the lessons that can be learned from the recent crisis.

Steve Grenville served for 20 years with the Reserve Bank of Australia, and was Deputy Governor of that Bank from 1996 to 2001. Before joining the Reserve Bank, he served in the OECD in Paris, and before that he spent time with the IMF in Indonesia. He played a pivotal role during the Asian crisis, and was instrumental in Australia's involvement in three of the larger support packages in the region. It is a great honour to have him here as discussant today.

Stan and Steve are old friends of mine. I therefore think it is right for me to comment on the positions in which they now find themselves after careers totalling around 40 years in central banking, and to try to see if this sheds any light on the eternal question: "What happens to central bankers when they cease to be central bankers?" I speak from a position of intense personal interest because the recent resignation of Don Brash of the Governorship of the Reserve Bank of New Zealand leaves me - so I am told - with the doubtful distinction of being the longest-serving central bank chief in the region. Don Brash, who has a reputation for making original career choices, has reportedly gone into politics - a precedent which, let me stress, I have no intention of following.

Stan and Steve have followed what the IMF would no doubt refer to as a "two-corner solution". Since leaving the IMF earlier this year, Stan has firmly anchored himself to one of the world's largest banking and finance groups as its Vice-Chairman. I will not name the bank here, because the HKMA is currently a tenant in a building that bears its name. To avoid giving the impression that the HKMA is a subsidiary of that bank, we have always tried to pretend that the building is called something else, by refraining from mentioning the name on our stationery, or to deliverymen or taxi-drivers, or to anyone else. It is sufficient to say that the bank in question is this year celebrating its 100th anniversary in Hong Kong.

Steve has gone to the opposite end of the two-corner solution by entering the floating world of academics and consultants. Since leaving the Reserve Bank of Australia six months ago, he has taken up an appointment as Adjunct Professor at the National Centre for Development Studies at the Australian National University. He also works as an economic consultant, mainly, I understand, on Asia-related topics.

Whatever corner Stan and Steve have chosen, the important thing is that they will continue to give their expertise to the region through organisations which, though very different, have an important presence in Asia. They are also here to share that expertise with us today. So without further delay, let me welcome them both and call first upon our speaker, Dr Stanley Fischer, to deliver the Fifth HKMA Distinguished Lecture. Dr Fischer, please.