

Joseph Yam: Asia's ability to cope with the continuing challenges of globalisation

Statement by Mr Joseph Yam, Chief Executive of the Hong Kong Monetary Authority and Alternate Governor on the Board of Directors of the Asian Development Bank, at the 37th Asian Development Bank Annual Meeting, Jeju Island, Korea, 15-17 May 2004.

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Mr President, I join other Governors in: first, thanking the Government and the people of the Republic of Korea for their warm hospitality in hosting this year's Annual Meeting; secondly, thanking the Bank's management and staff for the excellent arrangements made; and thirdly, welcoming our two new members - Luxembourg and Palau.

Mr President, on the governance of the Bank, I would like to commend the Bank for adopting a number of reform initiatives in the past year to enhance accountability and efficacy of operations. Greater transparency and accountability in all aspects of the Bank's operation is to be welcomed. Measuring, monitoring and managing development results are essential. The creation of the independent Operations Evaluation Department will enhance the credibility of the Bank's achievements. These initiatives will put the Bank in a stronger position in meeting the many tasks ahead.

On the region, Mr President, I would like to focus just on the continuing challenges arising from globalisation and the ability, or rather the lack of ability, of Asia in coping with them. The Asian financial turmoil of 1997-98 demonstrated this vehemently. Since then, Asia has also been affected by the globalisation of terrorism, geo-political risks and disease. Indeed, this time last year, the mobility of people in the region was paralysed by SARS and geo-political risks prevented Governors from having an annual meeting for the first time in the Bank's history. And recently there have been predictions that the large accumulation of foreign reserves and the associated domestic monetary management problems are presenting considerable risks to financial stability.

I do not believe that another Asian financial crisis is in the making. But the fact remains that, by being relatively small and open, Asian financial markets are vulnerable to shocks. Just earlier this week, the greater realisation that the interest rate upturn in the United States may come sooner and increases possibly larger than expected sent shock waves through equity markets in the region. This is regardless of the comfort offered by the much higher savings rate of economies in the region and the generally low level of indebtedness, of households and corporations. This is also regardless of the increasing inter-dependence within the region, as evidenced by the rapid expansion of intra-regional trade, particularly in final products, and correspondingly reduced dependence of the region as a whole on import demand from developed economies.

I have no doubt that Asian financial markets should remain open and, for those less open, continue with financial liberalisation, in order to benefit from the greater efficiency in the international allocation of capital that comes with globalisation. But there is a need also to reduce vulnerability by building bigger, deeper, more robust and diversified capital markets. While the interesting subject of monetary integration, which would provide a long-term solution, has been receiving some nascent attention, efforts to enhance the efficiency of financial intermediation within the region should be stepped up. Asia as a whole is one of the largest exporters of capital and, at the same time, also one of the largest recipients of foreign direct investment and foreign portfolio investment. The underlying process of capital flows associated with this roundabout phenomenon involves much greater financial volatility and instability for the region than the situation where a greater proportion of savings in the region could more readily find their way into investments in the region. This underscores the importance of greater efforts to enhance the efficiency of financial intermediation within the region.

Indeed, capital market reform is high on the agenda of most Asian economies. There has also been considerable progress in the diversification of financial intermediation channels, specifically in the development of the bond market. At the end of last year, the amount of domestic bonds outstanding in eight economies¹ that we have surveyed was equivalent to 47 percent of the combined GDP, more

¹ Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

than double the 20 percent at the end of 1995. Over that eight-year period, the bond market's share in total financing grew from 11 percent to 19 percent. But these numbers are still low for the bond market to play a meaningful role in contributing to financial stability and enhancing the efficiency of financial intermediation.

A number of regional initiatives are currently underway to accelerate this development. Under the APEC forum, Hong Kong, China, joined by Thailand, Korea and the World Bank are leading the APEC Initiative on the Development of Securitisation and Credit Guarantee Markets. The ASEAN+3 forum has initiated an array of studies under the Asian Bond Market Initiative (ABMI) while the EMEAP Central Banks have already launched Asian Bond Fund I and are now working on Asian Bond Fund II, which aims at channelling a small portion of the very sizeable official reserves held by the Asian economies back into the region.

Mr President, the Bank is uniquely placed to lend support to the region in these efforts, in three ways. First, the Bank can enlarge its technical assistance programme on capital market projects. In this connection, we are pleased to note the assistance the Bank is already providing to the bond market initiatives that I have mentioned. Secondly, the Bank can structure its own debt issuance programme with this objective in mind, as exemplified by Bank's current efforts to issue local currency bonds in China and Thailand. Thirdly, the Bank can encourage borrowers to issue bonds in conjunction with ADB-financed projects through the provision of partial credit guarantees.

Thank you, Mr President.