

Toshiro Muto: The 50-year-long good relationship between Hong Kong and the Bank of Japan

Speech by Mr Toshiro Muto, Deputy Governor of the Bank of Japan, at the reception for the 50th anniversary of the Bank of Japan Representative Office in Hong Kong, Hong Kong, 24 September 2007.

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Good Evening.

Distinguished Guests, Chief Executive of the Hong Kong Monetary Authority Mr. Yam, Consul-General and Ambassador Mr. Sato, Ladies and Gentlemen,

On behalf of the Bank of Japan, let me extend our gratitude to all of you for our long-standing friendship and your cooperation with our Hong Kong Office.

In 2004, I was invited to join the Visitors Programme sponsored by the government of Hong Kong, and enjoyed a candid exchange of views with senior officials in the government. The bird's-eye view of Hong Kong's dynamic economic activities which I saw from a helicopter is really unforgettable. Since then, I have felt deeply attached to this great city.

By coincidence, this year is also the 10th anniversary of Hong Kong's handover to China. It is my great honor to visit Hong Kong again today, and hold our 50th anniversary reception, celebrating Hong Kong's closer economic ties with the mainland and its prosperity as an international financial centre.

Pioneer days of the Hong Kong Office

There is an interesting story behind the establishment of the Hong Kong Office. In 1953, four years before the opening of the Hong Kong Office, the Bank planned to open an office in Calcutta, India. At that time, the Indian city was important for Japan as a source of iron ore and cotton. Unfortunately, however, two senior Bank staff sent to Calcutta became ill, probably due to the difference in climate between India and Japan. Hence, the Bank gave up the plan.

After this incident, Hong Kong was chosen as the location for the Bank's first representative office in Asia. At the time, Hong Kong was already the information hub in Asia, including China, owing to its trading and financial expertise. In retrospect, the decision was appropriate, given Hong Kong's current prosperity as a leading financial centre in Asia and Oceania.

However, the new-born Hong Kong Office faced adverse winds in the early stages. Until the early 1970's, due to lack of diplomatic relationship between China and Japan, staff in the Office were not even allowed to have official contacts with banks with mainland origins, let alone to visit the mainland.

Following the normalization of Sino-Japanese relationships in 1972, business trips to the mainland became possible. In addition, the Bank started to send its staff to Hong Kong University to let them study Chinese language. Since then, Hong Kong has played a role as a cradle to foster experts on China at the Bank.

In 1978, Hong Kong resumed granting licenses to eligible foreign banks, thereby strengthening its status as an international financial centre. Along with these developments, the importance of the Hong Kong Office to the Bank was firmly established.

Hong Kong over the last decade

The history of Hong Kong has always been spectacular, but I am convinced the last decade has been the most challenging one. Let me mention just a few particularly significant events.

The first is the Asian currency crisis. Since Asia had been praised at that time as a "growth centre," the fact that the crisis occurred in Asia surprised us. It also reminded us of the risk for central banks of drifting into complacency. As you know, this experience led to closer co-operation between the Hong Kong Monetary Authority, the Bank of Japan and other Asian central banks. This co-operation bore fruit in the shape of the Asian Bond Fund, which aims to create a more advanced bond market in Asia, and the swap arrangements called the Chiang Mai initiative which act as a safeguard against any future crisis.

When there was mounting selling pressure on the Hong Kong dollar, the Hong Kong Monetary Authority, under the leadership of Chief Executive Yam, adopted various measures to further strengthen the currency board system. The decisive actions remain vivid in my mind. Although Japan's currency system differs from Hong Kong's, we would like to express our respect for the Authority's strong belief in achieving the ultimate goal for a central bank, namely to safeguard the currency system.

The second is the SARS epidemic of 2003. It is understandable that some people lost confidence in Hong Kong, as the city faced this appalling epidemic just as the wounds of the Asian currency crisis had begun to heal. However, Hong Kong coped successfully with this epidemic by implementing strict hygiene control measures. In addition, the increased number of visitors from the mainland to Hong Kong, supported by deregulation in the mainland, gave renewed vigor to the tourism industry, severely hit by SARS, thereby strengthening ties between Hong Kong and the mainland.

Last but not least, let me highlight once again Hong Kong's current rapid growth, with closer economic ties with the mainland. Hong Kong enjoys solid growth with low inflation, a sound fiscal position and a competitive financial system. Financial markets are booming. Although some were anxious about the possible outcome of handover to China ten years ago, fortunately, this anxiety proved unfounded.

Looking ahead

Hong Kong seems to make constant efforts toward a more prosperous future, and seems never to be tempted towards complacency. A good example would be the fostering of Renminbi-related financial business through issuances of Renminbi bonds in Hong Kong, while maintaining a currency peg to the U.S. dollar.

Hong Kong is blessed with an enviable geographic advantage, being located in the centre of a rapidly-growing Asia. Hong Kong is also rich in the most important production factor for any industry, namely talented human resources like all of you here at this reception. This is, I believe an indispensable strength of Hong Kong. How Hong Kong develops further as an international financial centre is of enormous interest to everyone.

Finally, I thank again all our guests for your friendship and co-operation. Recently, everyone in the Asian financial markets is talking about the "unwinding" of the so-called yen carry trades. However, there will definitely be no "unwinding" of the 50-year-long good relationship between Hong Kong and the Bank of Japan. I am fully convinced the co-operation and mutual trust between us will accumulate further.

Thank you.