

Joseph Yam: Financial market developments in Hong Kong

Remarks by Mr Joseph Yam, Chief Executive of the Hong Kong Monetary Authority, at the Euromoney 40th Anniversary Gala Dinner, Hong Kong, 16 July 2009.

* * *

It is a great pleasure to be able to share the honour at this evening's Euromoney awards dinner with so many excellent recipients. And it is a particular honour to receive the award for "Outstanding Contribution to Financial Markets". This is a threefold honour. First, because it is awarded by Euromoney, a publication – or rather an institution – with a particularly strong relationship with central banks and markets in this region. Secondly, because the award is presented to the HKMA as a whole, as a recognition of the hard work of staff from all parts of the organisation who have helped develop financial markets. And thirdly, because the award highlights an area of our work that usually receives less acknowledgement than it should: the development of financial markets not just through encouraging product innovation, but also through laying down the infrastructure to enable markets to function and grow.

It is, I think, entirely appropriate that this evening's event is being held in a restaurant on top of the Star Ferry Pier – as we are from time to time reminded by the swaying of the structure and the occasional battering from the ferries themselves. Transport links are a good analogy for financial infrastructural links. They involve both local and international networks. They make use of technology at many different levels: from traditional cross-harbour ferry and metallic coins to advanced transcontinental passenger planes and real-time electronic clearing. And usually both transport systems and financial infrastructure receive attention only when something goes wrong. Financial infrastructure suffers the further handicap that it is largely invisible – a matter of wires and electronic pulses – with none of the glamour or nostalgia that physical transport can sometimes evoke. So, quite understandably, the general public take it for granted – indeed may not even be aware – that Hong Kong has for some time had some of the most advanced, efficient and secure payment, clearing and settlement systems of any financial centre in the world.

One of the responsibilities of the HKMA is to promote the development of these systems in collaboration with dedicated service-providers and the financial industry generally. In addition to its responsibility for Hong Kong's domestic systems, the HKMA also has a specific responsibility for promoting the development of systems in Hong Kong that facilitate the safe and efficient conduct of international and cross-border financial activities. We have been paying special attention to this aspect of our work in recent years in a way that has a very direct bearing on the development of financial markets in the region. The foundation is the development in Hong Kong of multi-currency clearing and settlement systems operated on a real-time gross-settlement basis: so far we have systems for the US dollar, the euro, and the renminbi, in addition to the Hong Kong dollar; there is the possibility of replicating this for any number of currencies, should the demand arise. To make these systems available in Asian time to the rest of the region, we are progressively linking them to other cities in China and with other countries in the region: we established a link with Malaysia in 2006 and have agreed with Bank Indonesia to establish a similar link with Indonesia in 2010. I have no doubt that other links will follow. In addition, through our Regional CHATS service launched in July 2007, we have made available Hong Kong's own clearing and settlement services throughout the region and beyond for cross-border payments. By June this year, 30 banks in Hong Kong had registered as service providers for services covering over 2,000 payment beneficiary points in 42 economies.

These are examples of how we are helping to build the hardware, or – to use the transport comparison – laying down the roads, tracks, junctions and interchanges, for regional financial markets. For the software and the actual traffic, it is of course the case that in a free-market economy such as Hong Kong's there is a limit to how much the government should take the lead. Nevertheless, there is much that the government can do to facilitate financial-market development by clearing the way, particularly where this involves markets of a regional nature. Three areas of work in which the HKMA – with various partners – is taking an active role are worth citing here. The first involves the gradual introduction and expansion of renminbi business within Hong Kong, which requires primarily co-operation between the Mainland and Hong Kong authorities at various levels, including both political and technical. The second example is our collaboration with other central banks in the region, under the auspices of EMEAP, on the Asian Bond Fund, which is intended not just to encourage business in the debt market, but also to stimulate regulatory reforms in economies in the region. The third example is our work in encouraging the development of Islamic finance in Hong Kong, through ensuring a level playing field, stimulating interest in Hong Kong among Islamic countries, encouraging product development, and raising market awareness within Hong Kong, particularly through the educational work of the Treasury Markets Association.

All of this work looks both to the past and to the future for inspiration. Looking to the past, we have the still-recent experience of the Asian financial crisis, one element of which was the undeveloped state of some of our financial markets, in particular the debt market. Many of the market-development initiatives on which we have been working have been intended to address these deficiencies. More recently, the current financial crisis serves as a reminder that some aspects of market development may be taken too far, where, for example, they privilege the process of intermediation and neglect the financial and economic realities that lie behind it. The caution inculcated by the Asian financial crisis, and a natural conservatism in many markets in this region, seem to have helped us avoid the worst excesses we have seen in more developed markets.

Looking more positively to the future, this region is poised to become the centre of economic growth and wealth creation in the world. Indeed we are already a long way down that path. So far, a great deal of the wealth created has been diverted into markets elsewhere in the world. Market development in this region, on a foundation of efficient infrastructure and sound regulation, will help retain more of that wealth for investment within the region.

This evening's gala event celebrates the 40th anniversary of one of the world's foremost financial publications. It is therefore only proper to say something about the vital role of the media in financial market development. The media can, I think, be seen as a kind of complementary, parallel infrastructure to the financial infrastructure that I have briefly described. The media are, of course, more visible, and much more diverse, but they also make use of similar technologies, whether advanced or traditional, and at various points they intersect with the financial infrastructure. Modern markets are, in fact, dependent on the media, whether in their provision of real-time information second by second, or in the more reflective analysis of market trends, or in the exposure of scandals and malpractices.

It is no coincidence that Hong Kong is both a financial centre and a world media centre. At least seventeen international news agencies, 29 international or regional newspapers, and another 29 magazines have a presence in Hong Kong, and all of them have some interest in financial affairs. We have 45 daily newspapers printed in Hong Kong and no fewer than 661 registered periodicals. Now, of course, some of these publications are what are known as *ma ging* (馬經) or racing papers, and not all of them have their dedicated financial pages. Even so, Hong Kong is remarkably well served by the financial media, and one thing that has never ceased to impress me during my sixteen years as Monetary Authority has been the quality and dedication of the many people in Hong Kong who make up the financial media. The many colleagues in the media play an extremely important part in the development of financial markets, and I should like to pay tribute to their professionalism.

I feel entitled to use the word "colleagues", not just because I have enjoyed a very close and productive relationship with the financial media, but also because I too, albeit uninvited and unpaid, have for the past 11 years served as a columnist in several newspapers through my weekly "viewpoint" articles. I should like to thank those newspapers who have faithfully reproduced these articles, week after week, even when the content may not always have been as newsworthy as they may have hoped.

Ladies and gentlemen, this evening's gala dinner, in recognising excellence in financial services will provide encouragement for the future development of financial markets in the region. It is also an opportunity to celebrate Euromoney's 40th anniversary and its long association with Hong Kong and this region. I should like to offer Euromoney heartiest congratulations on its birthday and the very best of wishes for a flourishing future.