Speech

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At the Ho Rih Hwa Leadership in Asia Public Lecture Series

At SUNTEC Singapore

On Monday, 16 November 2009, 4pm

Mr Chairman

Madam Ho Lian Fong and Mr Ho Kwong Ping

Distinguished guests

Ladies and gentlemen

It is an honour and a pleasure to be invited to speak at the Ho Rih Hwa Leadership in Asia Public Lecture Series, established in honour of a remarkable Asian entrepreneur. The story of the late Mr Ho Rih Hwa is an uncommon story of common leadership in Asia – a partnership forged in times of revolutionary change, including war, between an overseas Chinese and his wife. Mr Ho became not just successful in business, but was also an Ambassador. He was very much a family man and a father of a remarkably talented family. It is because of overseas Chinese entrepreneurs like him, who recognised the importance of grooming human talent, that we see all the smiling faces of SMU undergraduates – young people who are not just the future leaders of Singapore, but also future leaders in the Asian century.

You will all have noticed that leaders from the Asia-Pacific region have converged on Singapore for the annual APEC get-together. The discussions this year, naturally, focused on the financial crisis, how it impacted on the world and in particular the APEC economies, lessons learnt and challenges ahead.

Since this is a gathering of very very important people – VVIPs like you – I'd like to talk about four important issues facing leadership in Asia, the lessons learnt and the way ahead for Asia. These four issues are Vision, Values, Integration and Partnership.

Some of you may recall the Asian financial crisis in 1997 and 1998. I certainly do – I was Hong Kong's Financial Secretary then. We had to take extraordinary – but appropriate measures – to stabilise our financial markets and to stop speculators attacking our currency and stock market.

With the exception of China, none of the East Asian economies escaped unscathed. But, we learnt from our mistakes. We reformed our markets. We enhanced due diligence and market resilience. And we emerged stronger from the experience.

The similarities that we have seen between the two financial crises almost 10 years apart are remarkable, even though the scale and degree of complexity were different. The Asian crisis was a regional crisis of the more traditional retail banking and currency crisis type, while this current crisis is of global proportions, involving a failure of the global wholesale banking system.

The common elements of both crises are excess liquidity, excess leverage, large capital flows, loose monetary policy, asset bubbles, lax supervision and what we can call unconditional financial deregulation. In the case of the Asian financial crisis, countries such as Thailand and South Korea opened up before they were ready for the large capital flows and, in the current case, financial innovation in complex derivative instruments became toxic with little due diligence.

During the Asian crisis, the Yen carry trade was discovered and utilised to great effect by hedge funds and other speculators to arbitrage financial policy inconsistencies. Today, with zero or near zero interest rate policies, we see a repeat of rapid carry trades and leveraged capital flows that are once again creating asset bubbles in the emerging markets.

Vision

Young people today are growing up in an era of profound change. How we manage that change will determine our legacy for generations to come. So far, Hong Kong has withstood this crisis well – the integrity of our markets has remained intact. The markets have continued to operate relatively smoothly. Not one bank has needed a Government bail-out. Our financial systems remain resilient. We haven't seen people walking away from their homes and mortgages. And unemployment and bankruptcies have not skyrocketed like they did 10 years ago.

We realised also that the flip side of a crisis can be opportunity. A decade ago, we dug deep to look at ourselves, warts and all, to examine what went wrong, and to make sure we didn't make the same mistakes again.

That's what has protected us from systemic failure during this current maelstrom. And that is what we need to do again, now – because already we are starting to see alarming trends that could once again put Asia at the risk of liquidity flush and asset market bubbles.

The key questions we need to ask are – what are the key challenges and opportunities that we face in Asia? We are now at one of those crucial intersections of history, where a global realignment of economic power and influence is taking place. The opening up, reform and modernisation of India and China will have an enormous impact on the global economy.

However, the world has become much more complex because of demographic forces. Global climate change and other dynamic forces could change past economic equations dramatically. The rise of the Internet has flattened global structures. Functional systems are less hierarchical, more open, more inter-connected and more inter-dependent. Society is clamouring for greater inclusiveness, more equality and less social disparity. At the same time, fundamentalism, terrorism, crime and corruption are issues that citizens care about deeply. How leaders manage that complexity in a world of constant change is the great issue before us, young or old.

There is also no doubt that the current financial crisis has exposed weaknesses in the financial architecture and the way we looked at the world, including the way most people missed the danger signals. While most people in the developed world worried about weapons of mass destruction, they missed the financial variety that brought them to the brink of meltdown.

We can no longer afford a blinkered vision of where we are, and where we are going. We need broad vision, with a sense of history and our own cultural being; and we need to be able to paint in not just the macro-canvas, but also the micro-details.

Let me sketch broadly what I think the APEC vision is. APEC sees a peaceful rise of Asia, a region of prosperity, peace and stability. APEC citizens want high quality of life, greater environmental sustainability and greater freedom to enjoy that prosperity. By co-operating across the Pacific, APEC can be the foundation of stability for the rest of the world. How to translate that vision into reality is the great challenge facing government leaders, corporate leaders and civic leaders.

It will not be easy. But so far, great visionary Asian leaders have brought us to at least half way to the reality of a strong and prosperous Asia, standing as equals with the rest of the world.

There are three great priorities in the immediate and medium term. These are trade, jobs and the environment. Trade has been the engine of growth for Asia. World merchandise trade slumped by 32 per cent in US dollar terms in the first half of this year. We must be vigilant against rising protectionism, both in words and deeds.

As our main markets de-leverage and adjust to higher savings from a period of excess consumption and excess leverage, there will be profound changes in the Asian industrial formations. Asia will have to shift from export-led growth towards greater domestic consumption. But this inevitably will take time and will require major restructuring.

This restructuring will also impact on jobs. As unemployment rises in the West and trade slows, there will be a major need to change the job structure, perhaps away from over-reliance on energy and resource consuming production towards greener, energy-efficient services and products. You will notice that governments throughout Asia are providing the infrastructure and investments in education and re-training to make that possible. But, it will be up to the private sector entrepreneurship to deliver that structural transformation. Great leadership, patience and skill will be needed to make that transition. And, the fundamental success of this will depend on our value systems.

Values

Our value systems are the foundations of our society, without which there can be no social cohesion. Asian values have served us well. Hard work, honesty, entrepreneurship, trust, loyalty and filial duty are universal values, and not unique to Asia. But this crisis has shown that unfettered greed at huge social cost, as demonstrated by the recent behaviour on Wall Street, cannot be acceptable within Asian society. Asian society has always placed social interests above self – that we all have a higher calling to service, what Confucius called "天下為公" – the highest ideal is public service. This is not to say that we do not have our own fair share of individual greed. But, we cannot allow self-serving behaviour to be an icon of good social values.

Perhaps it is time to get back to basics. Financial services cannot be sustained on the basis of greed and instant gratification. Our management schools cannot be geared towards advancing the Gordon Gekko view of the world espoused in the American film “Wall Street”, that “greed is good”. There must be limits to individual or corporate greed, especially when we all live in a small planet of limited resources.

I well recall the tough decisions we have had to make to safeguard Hong Kong’s interests in the face of speculative attacks and market manipulation in the currency markets. Foreign exchange markets are over-the-counter (OTC) markets that the developed country regulators felt were self-regulating. This crisis has proven that if non-transparent OTC markets do not have oversight, they can become systemically destabilising.

Recent events in Wall Street have proven that insider-trading, market manipulation, self-serving short-selling and conflicts of interests – all issues we complained bitterly about 12 years ago – are finally receiving much-needed attention from financial regulators because it is happening in their home markets, not some overseas emerging markets. We are all in the same boat and we must act together to stop egregious behaviour destroying the foundations of our markets. Financial markets are all about service and integrity. Where is the integrity when the banks place their own individual interests above those of the customers?

Integration

Allow me to move from integrity to integration. Asia is becoming more and more important as a region, while at the same time more integrated within itself and with the rest of the world. For historical reasons, we were divided by colonial history and regional conflict. But trade has become the integrating factor, with intra-Asian trade now accounting for about 55 per cent of total Asian trade.

Intra-regional Foreign Direct Investment (FDI) accounts for 60% of the region's total. So, we are truly investing in each other's futures.

But intra-regional financial integration is lagging. We are more financially integrated with London and New York than we are with each other. East Asian economies are net exporters of capital and have placed our surplus savings in the West. Perhaps it is time to put some of those savings to work in our own backyard.

The current crisis has highlighted, in stark detail, the extent to which all of our economies are linked together.

It has made us much more inter-dependent and also much more vulnerable when crucial parts of our networks experience trouble. Who would have thought that the securitised mortgage of an over-stretched home owner in Miami would have such a huge impact on an exporter of IC boards in Singapore, or photocopiers in Japan, or lorry drivers in Hong Kong? But that's what happened, and now we need to look for ways to prevent that from happening again.

Thanks to our self-insurance, in the form of higher foreign exchange reserves and the lessons learnt from the last crisis, we were more ready for this tsunami. Thankfully, the economic fundamentals in Asia are much better now than they were 12 years ago. But there is no room for complacency.

Much deeper and broader-based financial integration in East Asia is important for a number of reasons. It will reduce the region's vulnerability to external shocks and capital withdrawal. It will help us – and the world – to better absorb volatility. It will help us develop our capital markets, which will reduce the over-reliance on banks. And, it will broaden the world's financial system by reducing the over-reliance on the US and European markets.

Some time in the future, we may need to look at the prospect of establishing an Asian currency regime as one of the building blocs of the global currency system. Just as the Euro took years, Asian financial and monetary integration will take years, if not decades. A pre-condition for such integration must be deeper intra-regional financial co-operation. Only by planning and strategising now about the best way to tackle large volatile capital flows can we smoothly integrate major Asian currencies into the regional and global financial systems.

Clearly, the right way forward is to build what is non-controversial – Asian financial infrastructure based on global best practices and standards. For example, the regional credit rating agencies have to be upgraded and regulated according to global standards to help deepen our fixed income and credit markets. And we would not like to see them have the conflict of interests and misleading ratings that we have seen for complex derivative products in the recent past.

Similarly, both India and China have closed capital accounts. What happens when the Rupee and Renminbi become freely traded currencies? How will that affect global financial markets? And, what will it mean for Asia?

To prepare for the next lap, we need to build stronger Asian institutions. We should embrace the work of groups such as APEC and ASEAN, particularly in areas that will make cross-border trade and investment easier for all of us.

Partnerships

Fourth and but not least, we cannot build the Asian region without strong partnerships. Certainly, Hong Kong and Singapore will be in the thick of the action. As leading financial centres in the region, both cities have major roles to play.

Because both cities are paragons of the benefits of free trade within a rules-based system, we must work together to push for more open markets, more access for business and greater alignment of rules and regulations.

There is much we can do together, both regionally and internationally. Working in international fora, we can together push to strengthen these multi-lateral institutions so that more Asian economies can reap the benefits of free and open trade. We can work together to support and encourage those regional economies that lack the capacity or expertise to implement the necessary financial sector reforms to their systems. We need to help each other to improve the global public good.

Look at these figures. Of the US$3.3 trillion in cross-border portfolio investments from East Asia, some 62% went to the US and Europe, and only 9% stayed in East Asia. This pattern holds true for cross-border bond holdings and bank claims.

Hong Kong and Singapore are well placed to develop much stronger, more innovative and more resilient financial markets to handle these investments in Asia. We had a great start with the Asian Bond Market Initiative, but we can build on this by supporting the development of a regional infrastructure funding market, something Singapore has a keen interest in.

Another example is financial regulatory reform. Currently, there are major reforms at the policy and structure level in Singapore and in Hong Kong, but they are disparate and they lack momentum for implementation. Our financial regulatory agencies can join forces to help strengthen this area to the whole region's benefit.

In the near future, as China and India begin to open up even more, including the internationalisation of their currencies, both Hong Kong and Singapore will have roles to play. It is in our own and our regional interests to ensure that the opening up of the capital accounts of these huge regional economies will happen in a stable manner. For instance, we cannot be the launching pad for speculative attacks on these accounts. We should help to manage their risks, not add to them. We all have vested interests in the success of their transition.

Specifically, I suggest that more of our academic and research institutions, as well as regulatory agencies and financial institutions, should proactively look for ways to work in partnership with each other and with regional counter-parties to further the regional integration agenda.

Asia generally has developed excellent hardware, but lags behind the West in software and services, areas where Singapore and Hong Kong have comparative advantage and experience. In Hong Kong, for example, we have identified six areas where we enjoy a competitive edge for further development – educational services, medical services, testing and certification, environmental industry, cultural and creative industries and innovation and technology.

By identifying these six industries with promise we are not abandoning our long-held belief in 'Big Market, Small Government'. We are simply playing to our comparative advantages where our entrepreneurs can further their business and skills according to market interests and customer demand.

Ladies and gentlemen, whether Asia makes it to the next level – despite our enormous potential – must be a collective effort. No Asian economy can do it on its own. Hong Kong and Singapore, as two leading cities in the region, should work together with our partners in the region to ensure that we build a successful Asian Century. None of us want to be witness to the Century of Lost Opportunity.

Thank you very much.