Speech

Speech by Secretary for Financial Services and the Treasury Professor KC Chan at the Hong Kong Kellogg Impact Series Conference on March 19, 2010

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"The Global Financial Crisis - Reflections from Asia"

Dean Chopra, Distinguished Guests, Ladies and Gentlemen,

Thank you for inviting me to be the speaker at the Kellogg Impact Series Conference. A conference to discuss the opportunities and challenges in Asia post Financial Crisis. To the Kellogg faculty and alumni travelling from abroad, a special welcome to you.

A frequently asked question in relation to the global financial crisis is whether there is a delinking of Asia from the West.

In the early stages of the financial crisis, the conventional wisdom was that Asia was not delinked from the rest of the world. Indeed, when the crisis hit, it seemed the impact on Asia would be just as devastating as in other regions.

We watched as the credit crunch took hold in the US and Europe and the ripple effect headed towards Asia. At least we had time on our side…time to take a number of pre-emptive measures to cushion the impact of the financial tsunami.

Even so, we were not spared a direct hit from the storm.

Today however, Asia appears to be recovering strongly and more rapidly than other regions around the globe. Even in Hong Kong, where the economy is heavily dependent on the external environment, we have turned a corner.

We anticipate full-year GDP growth of between 4 and 5 per cent this year. This is well above the World Bank's global growth forecast of 2.7 per cent for 2010.

So has the crisis, which was sparked by a sub-prime mortgage-lending problem in the US, caused a delinking in another way – a shift in the relative economic performance of Asia and the West?

Most countries in the Asia, including China, have adopted an export-led development model. This model has been successful helping to drive sustained growth in our region.

In Asia we have abundant labour, rising education standards, and growing productivity levels. Asian economies have turned themselves into efficient factories to meet the demands of consumers in the West.

Governments have played a key role in the economic transformation – not least in the mainland of China. In three short decades of opening up and reform policies, the Central Government in Beijing has transformed a planned economy to a market economy.

Asia has benefited from globalisation, international free trade policies and the trend towards outsourcing. This is made possible by advances in information technology and logistic management in the region.

The rise in consumer spending in the prosperous decade before the global financial crisis has led to a boom of exports from various Asian countries to the West.

When we speak of the economic success of Asia, we must also recognise Asia's dependence on world trade in general, and on the Western markets in particular. There is no delinking of Asia from the rest of the world.

Even as the West continues to struggle with the fallout from the global recession, few would dismiss the advantages the West enjoys. These include strong market institutions, leadership in science and technology, and a high level of wealth.

Although Western economies may have problems, such as the once over-inflated financial markets, or excessive consumption, they still lead in innovation and technology.

Information technology, medical sciences, bio-technology and environmental technology are likely to be the most exciting industries of our world in the future, and the West is the leader in these fields.

But the Western origin of the crisis, and the different speeds in recovery in the West and East, have led to the perception of a relative decline of Western economic growth potential.

The crisis has revealed problems with the global financial market. It has fostered a view in the East that Western governments have not done a good job in regulating the financial market in the first place.

And after the crisis erupted, Asian governments appeared to have done a better job in boosting their domestic demand and supporting their economies. This contrasts with the slow and tortuous process in which stimulus measures were approved in Western countries.

The crisis has illustrated the sharp differences in the roles and crisis management capacities of Governments in the West and Asian countries.

China offers a good example of strong governance in the face of the financial crisis.

In early November 2008, less than two months after the collapse of US investment bank Lehman Brothers, the Central Government announced a RMB 4 trillion fiscal spending package (16% of GDP).

China was the first major economy in the world to come out with such a large stimulus package. It is impressive how quickly China responded to the global credit crunch, and its subsequent implementation of this policy is equally breathtaking.

The Central Government also used this opportunity to direct the spending to improve the country's infrastructure and raise the standard of living in poorer parts of the country. This strategy is not dissimilar to the American New Deal after the Great Depression in the 1930s.

In contrast, in the United States, the stimulus package was passed in Congress only after the global recession was under way, and its size was smaller than China's as a percentage of GDP.

The internal debates about what should be done, which was part of the political process necessary to pass large fiscal spending packages in the West, is contrasted with the quick and decisive action taken by their Central banks.

In the U.S., after a slow start, the Federal Reserve was able to move rapidly to deal with the fast unfolding crisis. The Fed's emergency power enabled it to inject a massive amount of liquidity into the banking system and provide a backstop to many failing financial institutions without the need to go to Congress.

The crisis would have got a lot worse if the Fed did not have this extraordinary power.

The strong performance of Asian economies is due to the fact that their financial systems have not collapsed, and that Asian governments, China in particular, acted quickly to stimulate their economies.

The global financial crisis has caused recession in many economies. Sound government policies can help speed up the recovery process. But we need to watch out for signs of over-regulation in the West, or adoption of protectionist policies. This would only slow economic growth in the West and the rest of the world.

Despite the strong performance of China, the experience of the financial crisis shows that China also has to change its export-led growth model. China is fully aware that it needs a more sustainable economic model. If the Mainland can successfully take on this challenge, it can turn itself into a full-fledged economic powerhouse.

Premier Wen Jiabao hinted at changes when he set the policy agenda for the Mainland's economic development in 2010 at the Central Economic Work Conference last December. His report stated that the policy priority this year would shift away from stimulating the post-crisis economy through massive public spending. Instead, it will move towards boosting private demand and adjusting the economic structure to achieve a more balanced growth pattern.

China is implementing policies on all fronts to boost its domestic consumption. Its investment in education and infrastructure will have the effect of bridging the income gap between the western part of the country and the more wealthy coastal areas.

The country’s massive high-speed rail project is expected to completely change the landscape of railway connection and regional travel. It will offer a real and competitive alternative to air travel and bring about business opportunities and leisure travel previously unavailable.

China's investment in education and technology is expected to promote more balanced growth and give our nation a competitive edge in innovation.

Achieving sustainable growth in China and throughout Asia will depend very much on the Mainland’s success in transforming its economic growth model. I believe there is a strong determination to do that. The global financial crisis has driven home the need for change.

Here in Hong Kong, we have a strong role to play in the economic development in the Mainland and the rest of Asia.

Hong Kong’s financial system has performed well during the crisis. Our banks have been well capitalised and prudent in their lending practices. None of our banks have required rescuing. Securities market regulation stood the test of wide swings in the market. We had a good short selling regulation in place, and we did not need to ban short selling at the height of the crisis.

I would attribute the strength of our financial market to good prudential regulation and good risk management practices in our financial institutions.

As the most international financial market in Asia, and as part of China, Hong Kong is in a unique position to serve as a financial centre to support the growth of our nation.

We will work to expand the size of our equities market and our asset management industry, so that we can serve as a premier listing platform for Mainland and overseas companies, as well as a wealth management centre for local and overseas investors.

As stability has returned to the market, financial service firms have been expanding their operations in Hong Kong. Financial innovations and market deepening will take place along with the growth of the Mainland and Asian economies.

We need to recognise that financial innovations per se are not the cause of the global financial crisis – bad regulation is.

Hong Kong's success as an international financial market for China will depend on our ability to manage financial innovations and build a quality market.

Our experience as a free and open international market with a transparent regulatory environment are our key competitive advantages.

As Asia searches for ways to continue its impressive growth story, there are going to be many opportunities for those who work in our region. There are also opportunities for great business schools such as Kellogg and HKUST to do research on our economies, and to guide us in policy making.