

# THE CHALLENGES OF FUND MANAGEMENT IN THE PACIFIC CENTURY, AND THE ROLE OF THE MONETARY AUTHORITY \*

*Rapidly growing wealth, scaling back of government pension coverage, improved communications and the high returns offered in the region provide great opportunities for Asian fund managers. Taking advantage of these opportunities requires skill by the private sector and the provision of a stable and secure environment by the Government. The HKMA's role is to provide monetary stability and financial integrity.*

## Introduction

It is a very great pleasure to be with you tonight on this gala occasion, and may I join in adding my own congratulations to all the worthy winners of awards. Many of you have posted some most impressive returns for 1995, and almost everyone will find something in 1995 to look back on with warm memories. Even the Exchange Fund - and I am sure you will not mind me mentioning the Exchange Fund, because managing the Fund's assets is after all one of my duties as the Monetary Authority - even the Exchange Fund had a very satisfactory year in 1995. We added almost 19% in the first half of the year to our accumulated surplus, and while we won't quite repeat that pace for the second half of the year, when the figures come out I don't think you will be too disappointed.

## Fund Management in the Pacific Century

However, I am not going to occupy your time with a review of the past year. Others are able to do this far better than I can. Instead, I would like to use this occasion to look forward, to identify a few themes which might affect your industry in the coming years and decades of what some are already calling "The Pacific Century".

It seems to me that the fund management industry here in Hong Kong is doubly fortunate, and doubly well placed to enjoy continued growth and success in the coming years. The fund management industry is today one of the world's biggest growth industries. Accumulated wealth worldwide continues to grow at a historically very high rate, and this trend shows no noticeable sign of slowing down. At the same time, governments all over the developed world are withdrawing, or threatening to withdraw, from providing for their people's retirement. The average citizen in the rich

world today can look forward to a longer life expectancy and more leisure time after the end of their working life than ever before, but they also know that the state will fund less and less of it. The need for private sector provision for retirement, both living expenses and also medical costs, is therefore huge, and the fund management industry stands to benefit enormously from it in the years to come.

Nowhere is this more true than in Asia. Wealth is being created in Asia at a rate almost without parallel in the world's economic history. And with it, expectations are changing very rapidly too. For my parents' generation, just after the War, the norm was to work all your life. In your very old age, your family and your children might support you, but for the average person, the dream of self-sufficiency in retirement financed by one's own accumulated savings was just that, a dream. Now, the dream can be reality for huge sectors of our population: I doubt if a single person in this room tonight intends to go on working until they die. The opportunities for the fund management industry to help ordinary people realise their dream of self-sufficient retirement are enormous.

But the fund management industry in Asia has one other great advantage as we stand on the threshold of the 21st century. A combination of the increase in world savings, plus the dramatic changes in world communications and the accessibility of world markets, has meant that more money than ever before is being invested overseas; that is, outside its country of origin. And a very large proportion of that money is flowing into Asia, attracted by the high growth rates and great opportunities for returns on investments I mentioned earlier. Who better to manage it than the fund management industry here in Asia already? No one knows Asia better than you do, no one is

\* This is the text of a speech by Joseph Yam, CBE, Chief Executive of the HKMA at the 1995 Fund Manager of the Year Awards in Hong Kong on 2 February 1996.

better placed to benefit from this huge upswelling of interest in our part of the world from all around the globe. The opportunities in front of your industry as we approach the next century are golden indeed.

Given all this, you might be tempted to think that all you need to do is just sit back with your doors open, waiting for clients and their money to roll in. Alas, life is never that simple. Opportunities are just that: opportunities, and they still have to be taken advantage of, maximised and turned into profitable business. And if we do not do this in Hong Kong, you can be sure that others will elsewhere in the Region.

### **The Role of Public Policy**

To maximise Hong Kong's opportunities will take the efforts of both the private and the public sectors. I would not presume from my position as the Monetary Authority to tell you, the private sector, what you should be doing. I am sure your strategists and senior management are already well aware of what is necessary, and are already working on your plans. But you are entitled to ask me what the public sector can do, what contribution we can make towards ensuring that the fund management industry here in Hong Kong continues to have a favourable environment in which to operate.

The influence of public policy on savings and investment can be large, but it is not always directly successful or even successful at all. For example, economists in many countries in the developed world have been saying for many years that savings rates are too low, and governments in those countries have been actively trying to increase them. Despite this concerted effort, however, few countries outside Asia have been very successful in engineering significant and lasting increases in their savings rates, and almost none can match the savings rates commonly seen in countries in this Region. In fact, a cynic might observe that for many countries outside Asia, government policies and activities in this field often do more harm than good: the less government tries to do, one might almost conclude, the better.

I do not quite agree with this. Government is not totally powerless - that is perhaps the economics

of the last century, when boom was inevitably followed by bust and governments sat back and bewailed their inability to ameliorate the economic cycle and its destabilising effects on the community. We can do better than that now. For better or worse, in any developed state today the government plays a large part in setting the tenor of the social and economic life of its people, through its social policies, such as the provision of housing and education, its taxation policies, and its activities in the development of the necessary legal and financial infrastructure of a modern state. And this is as true in Hong Kong, where we pride ourselves on our government's restrained involvement in the economy, as it is in other, more interventionist, societies.

### **The Role of the Monetary Authority**

I would sum up the role of Government in a modern, free society as being the provision of a stable and secure environment, so that citizens can make the most of their opportunities and their lives. The Monetary Authority's part of this task is of course concentrated on the economic environment, and our operations and actions are all directed towards ensuring that this economic backcloth is sound, and that the financial infrastructure underpinning the economy is secure. Only then can the private sector, and the markets, continue to generate and increase the wealth of our society, on which the future prosperity of our people depends.

On one level, this means we need to maintain and strengthen market systems and practices, and the security and integrity of the wider legal, banking and financial systems. As many of you will know, the Monetary Authority is actively pursuing this, with a number of initiatives ranging from the continued development of our HK dollar debt market to the introduction later this year of a more secure payment and settlement system. But it means more than this. However good the infrastructure, however sound the market systems and the banks, we can only achieve ongoing success if Hong Kong keeps creating wealth, keeps productive and keeps competitive. The Monetary Authority cannot, of course, guarantee this all on its own. But what we can do, and what we try to do, is to provide a background of monetary stability as the bedrock on which others can build.

Monetary stability is of course not of itself sufficient to guarantee a prosperous future. But I know of no state in history, and certainly none today, where society has prospered over the long term in the absence of monetary stability. Without monetary stability, the creators of wealth cannot plan and invest for the future, and without planning for the future, they cannot continue to create wealth. And if they do not create wealth, then neither can you in the fund management industry.

As the Monetary Authority, I am often asked to "do more" for the local fund management industry. Usually, the questioner is hoping either for some artificial tax break to encourage funds and fund managers to the Territory, such as some other authorities in the Region seem to feel is

necessary, or perhaps they seek a small part of the Exchange Fund to manage on our behalf. But I firmly believe that the greatest long-term contribution I can make to the success of your industry is to provide you, and all the creators of wealth in our community, with a background of monetary stability and financial integrity. That is the mission of the Monetary Authority, and that is what I will do my best to give you. Not just now, not just in 1996, but as an ongoing and continued commitment to the future prosperity of our people.

In closing, may I wish you all a record rate of return for the funds that you manage in the coming year - at least beat the rate of return on the Exchange Fund. Thank you. ☺