ASIAN MONEY: ITS DYNAMICS AND PROSPECTS *

The East Asian Region is of growing importance in terms of financial strength. As the Asian economies gather strength and wealth, it is important that central banks and monetary authorities in the region work together to promote stability, a key element for strong growth and prosperity. It is against this background that the HKMA strongly supports enhancing co-operation to maintain currency stability and improve the integrity and stability of the banking system in the region.

I am very honoured to be invited by Mr.Toyoo Gyohten to address this Symposium on this important topic of Asian Money.

Growing Importance of the Asian Market

The East Asian Region[1] accounts for 31% of the world's population. Between 1960 and 1994, real GDP growth in the Region was 1.5 times that of the world average. Per capita GDP in the Region has tripled during this period. By 1994, the GDP generated by the Region amounted to US$6.7 trillion, or about the same as the US economy. The World Bank has forecast that the average annual growth for the Region between 1994 and 2004 would be over 6%, compared with 5% for the developing countries and 3% for the world as a whole.

Trade involving the East Asian Region has been growing in importance, rising from 20% of total world trade in 1984 to 26% in a decade. Nine of the top 20 exporting economies are in the Region. There is also growing intra-regional trade, with trade within East Asia rising from 41% in 1984 to 51% by 1994.

The Region has also been the major beneficiary of net capital flows. In 1995, the World Bank has estimated that East Asia and Pacific Region received US$98.1 billion of net private capital flows, or roughly 59% of global flows to developing countries.

Net capital inflows have meant that the Region has rapidly accumulated foreign exchange reserves. These grew at an average annual rate of 49% during the last decade to total US$600 billion at the end of 1995, or 43% of global total, compared with US$100 billion a decade ago. Eight of the world's 20 largest foreign exchange holders are in the Region.

In terms of financial markets, the Region has deep banking and equity markets. Eight of the world's largest stock markets are in the Region. The market capitalisation of the region accounts for one third of global stock market capitalisation, compared with 40% for America and one quarter for European bourses.

The Region has been generally financially prudent, with strong fiscal positions. At the same time, the external debt has been kept within safe limits. In 1995, the developing economies of East Asia and the Pacific Region had total external debt of US$472.8 billion, equivalent to 23% of the total external debt of the developing economies. The average debt-to-export and debt service-to-exports for East Asian developing countries were 83.3% and 10.7% respectively in 1995, lower than the ratios of 150% and 16.3% for developing economies as a whole.

There is a major difference in the currency composition of East Asian debt. 33% and 30% respectively of the Region's long-term external debt are in US dollar and Yen respectively, compared with 43% and 13% respectively for all developing economies. The yen debt of Asian economies varies from 38% (Malaysia and Philippines), Indonesia (45%) to 52% (Thailand).

Outlook for Liberalisation

The East Asian Region has been extremely open in terms of trade, and is also rapidly de-regulating in the financial sector. The two major financial centres of Hong Kong and Singapore have

* This is the text of a speech by Andrew Sheng, Deputy Chief Executive (Monetary) of the HKMA to the Institute for International Monetary Affairs Symposium in Tokyo on 5 April 1996.

1 defined as Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, Korea, Taiwan and Thailand.

virtually no tariffs and highly open financial markets. The Japanese financial liberalisation programme in the 1980s was instrumental in creating greater resource flows around the world. Elsewhere, we are witnessing major deregulation moves in Korea, China and Taiwan, while many countries in Southeast Asia are opening up for competition to foreign banks, stock brokers and fund managers.

Co-operation amongst Asian Financial Authorities

Whilst Asian monetary co-operation has not had the same length of history as European monetary co-operation, there are many forum and opportunities for the regulatory authorities to meet. The South East Asian, New Zealand and Australasian central bank forum of SEANZA has been in existence since 1956 and today comprises 18 central banks and monetary authorities. The SEACEN group of central banks comprise 10 members and was founded in 1966, with a training and research centre in Kuala Lumpur. The latest group to be established is the EMEAP group, being the Executive Meeting of East Asia and Pacific Central Banks, which was founded in 1991. The membership comprises central banks and monetary authorities of 11 countries, namely, Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore and Thailand. There is also a Four Markets Meeting, whereby financial regulators from the four financial markets of Japan, Australia, Hong Kong and Singapore meet twice a year to discuss market developments and areas of supervisory interest.

The need for greater co-operation was brought clearly into focus when in January 1995, in the aftermath of the Mexican crisis, there was speculative ripple in several Asian currency markets. The HKMA convened a meeting of 5 regional central banks to discuss their experience with the speculative activity. Out of this meeting was born the idea of exchanging information and using repurchase agreements (repos) to enhance the liquidity of foreign exchange reserves. On 20 November, 1995, the Governors and senior officials from 10 central banks and monetary authorities in the Region met in Hong Kong and witnessed the signing of bilateral memoranda of understanding on the repo of US dollar government securities between five of these central banks. The Governors recognised the importance of enhancing cooperation to maintain currency stability and improve the integrity and stability of the banking system in the Region.

Since then, a number of the other Asian central banks have signed bilateral repos with each other. The bilateral repos are straightforward commercial transactions which many central banks have been transacting with banks and investment houses. Since they use US Government securities, credit risks are not a major consideration. In the past, many central banks have been holding such US Government securities, but their liquidity was not very great in Asian time. The fact that the central banks are prepared to engage in repos with each other have greatly enhanced the liquidity of such paper, and consequently the liquidity of the central bank foreign exchange reserves.

Clearly, such bilateral agreements greatly improve central bank co-operation not only at the policy level, but also the operational level. It enhances understanding of each others' markets, practices and procedures and would constructively build the future of Asian financial markets.

Conclusion

One of the great strengths of Asian growth in the last 50 years has been growth with stability. As the Asian economies gather strength and wealth, within a context of global open financial markets, it is important that central banks and monetary authorities work together to promote that stability, which will provide the right environment for strong growth and prosperity.

As each other's markets grow and liberalise, and trade and investment become more regionalised and complex, we find it only natural that the regulators and supervisory authorities should meet more often. This was how the European financial markets were built. A forum such as this would enhance better understanding of the implications of major policy moves in different markets, as well as to share experiences in market development and supervision. As the Barings experience has shown, the failure of one institution in one market can lead to supervisory issues in other markets.

The HKMA is both a strong believer and supporter of greater co-operation between central banks and monetary authorities in the Region. I would like to thank Mr Gyohten for inviting us to this Symposium and giving us the opportunity to share our views here.