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Summary report on the Asian Financial Forum 19-20 January 2009

Introduction

The Asian Financial Forum AFF 2009, organized by the HKSAR Government and the Hong Kong Trade Development Council, took place in Hong Kong on 19-20 January 2009. Under the theme "The Changing Face of Asia", the forum was a follow-up to the inaugural AFF 2007. It drew more than 1,000 delegates from 28 countries and regions, including nearly 300 delegates from the Mainland China.

Leading international speakers included Alexei Leonidovich Kudrin, Deputy Prime-Minister and Finance Minister of the Russian Federation; Shin Je Yoon, South Korea's Deputy Minister for International Affairs in the Ministry of Strategy and Finance; Nobumitsu Hayashi, Japan's Deputy Vice Minister of Finance; and Dr Antonio de Lecea, Director for International Economic and Financial Affairs of the European Commission.

Speakers from the HKSAR Government included Chief Executive Donald Tsang, Financial Secretary John Tsang and Professor KC Chan, Secretary for Financial Services and the Treasury.

Other panel and keynote speakers included bankers, scholars, analysts, regulators and professionals from Hong Kong and all over the world. Lord Brittan, Vice Chairman of UBS Investment Bank, chaired one of the panel discussions at the forum.

The forum discussed about the latest developments in the region, the challenges ahead and opportunities available in the current financial crisis.

Views on the economic situation in Russia, Asian countries and Hong Kong

Alexei Leonidovich Kudrin, Deputy Prime-Minister and Finance Minister of the Russian Federation, said the Russian economy was hit hard by the financial crisis. Both Ruble and the stock index recorded a huge drop. As about 20% of the Russian GDP was related with the oil and oil-related industries, the drastic drop in oil prices worsened the situation. The GDP growth was estimated to fall from 6% in 2008 to zero growth in 2009. Russia might also face a budgetary deficit in short term. To strengthen its banking system, the Russian Government injected capital in the system to improve its liquidity. As the economy in Asia was expected to have a better performance than that in the US and Europe, the Russian Government would invest in some energy, resources and infrastructure projects in those subjects (regions) close to the Far East. On one hand, Russia would maintain its openness. On the other hand, it would tighten regulatory and supervisory control in the financial market.

Shin Je Yoon, South Korea's Deputy Minister for International Affairs in the Ministry of Strategy and Finance, spoke about the current financial features of the Asian countries: a) massive withdrawal of investments from the US and Europe; b) tight liquidity; and c) depreciation of the Asian currencies in general. The Korean Government adopted various measures to stimulate the economy and stabilize the financial market on the domestic front. He urged to enhance the co-ordination of economic policies and measures adopted by different governments and reinforce trade and economic co-operation among the Asian countries. He warned against protectionism and currency manipulations. It was echoed by both the EU and Asian officials at the forum.

Nobumitsu Hayashi, Japan's Deputy Vice Minister of Finance, admitted that the world was encountering a very severe recession. The global economy deteriorated sharply and rapidly. He said that poor governance of financial institutions was one of the major causes of the financial crisis and it had to be fixed and corrected. The global economic downturn would undoubtedly affect all Asian countries. On the financial front, there would be a rise in both credit and liquidity risks. premium for inter-bank financing would be higher and private companies would find it difficult to raise their capital. Nevertheless, thanks to the lessons learnt in the Asian financial crisis in 1997-98, Asian countries in general adopted a tighter supervision on their respective financial systems and improved the balance of their current accounts. Otherwise, the adverse impacts would have been even worse. He added that Asian economies could strengthen co-operation by working on the Chiang Mai Initiative[1] and the Asian Bond Markets Initiative[2]. He thought that the Asian countries had to develop a sound and mature regional capital market to mitigate the impacts of sudden outflows of external funds. Moreover, the Asian countries should adopt fiscal measures to stimulate domestic demand and invest in green development as well.

Wang Shuilin, Managing Director and Head, Public Relations and International Cooperation Department, China Investment Corporation CIC (a sovereign wealth fund owned by China), mentioned that CIC would adopt prudent approach and diversify their investments in the US, Europe and developing countries under the current difficult situation. They aimed to strengthen their corporate governance and risk management.

Dr. Tong Daochi, Director-General, International Affairs, China Securities Regulatory Commission, admitted that Chinese companies and institutions made some losses in overseas investments in recent years. Nevertheless, China remained positive in the Qualified Domestic Institutional Investor (QDII) scheme which enabled Chinese investors to invest in foreign financial products. They would encourage more Chinese companies to go public at the Hong Kong Stock Exchange and support Chinese brokerage firms to operate in Hong Kong. Last year saw a big contraction of the capital market in China. Capitalization of both Shanghai and Shenzhen stock markets dropped by more than 60% whereas Initial Public Offers dropped by more than 70% in 2008. In addition to a package of economic stimulus measures introduced by the Chinese government, Dr. Tong believed that regional and international co-operation was crucial to combat against the recession.

Donald Tsang, Chief Executive of HKSAR, predicted that the GDP of Hong Kong would register negative growth for the 4th quarter of 2008 and the first half of 2009. It would be a swift reversal from a boom that saw the GDP growth by an average 7.3% between 2004 and 2007. The HKSAR Government has announced a package of measures to boost the economy and stabilize the financial market such as full deposit protection, loans to SMEs and implementation of infrastructure projects.

He stated that Hong Kong had to enhance its function as a financial centre in the region. One of the initiatives was to further develop Renminbi RMB business in Hong Kong. Hong Kong remained the only jurisdiction outside the Mainland China to provide RMB banking services since 2004. In December 2008, the Central Government in Beijing announced a pilot scheme to further liberalize RMB business in Hong Kong. It would allow qualified enterprises to settle cross-border trade between the Mainland China and Hong Kong in RMB.

The Central Government recently unveiled a development plan for the Pearl River Delta PRD region to promote wider co-operation among Guangdong, Hong Kong and Macao. It would give the PRD region greater autonomy for close collaboration among themselves in economic activities. It aimed to establish the region as one of the most vibrant and competitive areas in the Asia Pacific.

Islamic finance

Islamic finance has grown rapidly across the world in recent years. The global Islamic financial sector is estimated to value about US$ 700 billion with a double-digit growth per annum. HK Chief Executive Donald Tsang has identified the development of Islamic finance as a key policy initiative to consolidate Hong Kong's position as an international financial centre. In this regard, Hong Kong has signed the Memoranda of Understanding with Dubai. Some Islamic financial products have already been launched in the local market though the scale is comparatively small.

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[1] The Chiang Mai Initiative aims to create a network of bilateral swap arrangements among the ASEAN+3 (the Asean member countries plus China, Japan and South Korea) to address short-term liquidity difficulties in the region and to supplement the existing international financial arrangements.

[2] The Asian Bond Markets Initiative is a bond market facilitation scheme among the ASEAN+3.

Given a very limited size of Muslim population in Hong Kong, the domestic market is therefore not big enough. Hong Kong intends to tap China and overseas Muslim population as well as conventional investors. After all, Islamic funds are not confined to Muslims only. It is open to the public and conventional investors. Islamic finance practices are in general prudent and conservative. Under the present financial turmoil, Islamic finance products may sound more appealing to investors than before. On the other hand, Hong Kong can serve as a platform for Islamic investors interested in investing into China. By investing in the Mainland China through Hong Kong, investors can capture the investment opportunities in an emerging market, while enjoying the services and investor protection of a developed market.

Islamic finance is based on Islamic law. Different regions and countries have different interpretations. Some panel speakers at the forum admitted that a lack of standardization of rules might cause confusion. It was one of the hurdles for Islamic finance to move deeper into mainstream global finance.

Warnings against protectionism

Officials from Asia and the EU voiced their concerns at the forum about the potential threat of protectionism. Protectionism would certainly spell disaster for the global economy. Dr Antonio de Lecea, Director for International Economic and Financial Affairs of the European Commission, noted that leaders attending a summit of Group of 20 economies in November 2008 had vowed to combat protectionism and refrain from raising new barriers. He warned that protectionism would not help any country to escape from the financial crisis but prolong and deepen the recession. He added that trade was not a zero sum game and all countries should maintain their determination to keep the markets open. To fight against recession, he urged for more collaboration and co-ordination of economic policies and measures between countries. Co-operation between Europe and Asia should also be strengthened.

Opinions on sustainable growth models

There were divided opinions on sustainable growth models among some participating bankers and analysts. Jim Rogers, a known analyst and investor, was very pessimistic about the US economy. He mentioned that the high saving rate and solid fundamentals of China would make it a powerful force to be reckoned with. He predicted that Asia would lead the way in the 21st century as the most dynamic region in the world, with China in the lead. It would be a shift of power in favour of China in both the political and financial world.

Dr. Stephen Roach, Chairman of Morgan Stanley Asia Ltd., expressed a gloomy outlook about the US economy. However, there was no decoupling. The recession originated from the US certainly hit Europe and emerging economies as well. Asian countries were better in terms of foreign reserves and budgetary surplus than their situation in the Asian financial crisis in 1997-98. However, Asia could not count on the US consumption which would not be revived in a few years. The Asian growth model, in his opinion, was unbalanced and unsustainable. Its economic growth was over-reliant on exports. Asia had a strong saving ratio but lacked private consumption. The recent 4 trillion yuan stimulus package introduced by the Chinese Government was in nature more related with infrastructure projects than private consumption. The challenge for Asia, in particular for China, was to increase domestic consumption. However, before China could improve its social safety net (unemployment insurance, pensions and health care), Chinese consumers would never feel secure to spend more money.

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