Thoughts on
Financial market integration and cooperation in Asia

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At Deloittes Workshop

Asia Financial Forum

Hong Kong

Tuesday, 15th January 2013

Thank you, Ken and Deloittes, for inviting me again to participate in your discussions this year. And I believe there is no other issue in financial circles more pressing than the one you have chosen for today's workshop – Asia's financial integration and cooperation.

Speaking fifth after several very distinguished and knowledgeable presenters is always a challenging task, as many excellent points have already been made, but I will try to give you some additional perspectives and later introduce one new idea.

But first we need to agree on why we feel greater integration in Asia is necessary. After all some might argue that the high level of financial market integration in the United States and Europe helped propel a US mortgage problem into a global financial crisis. But of course the continuing crisis owes as much or more to poor economic policies, basically countries living beyond their means.

But it does remind us that an efficient financial market is a sharp double edged sword. It magnifies and accelerates the impact of policies, leading to disaster if they are inappropriate, but producing virtuous outcomes if the policies and the regulatory environment are sound.

The fundamental reasons for greater development and integration of financial markets in our region are to harness the huge pool of savings, government, corporate and private and utilize this more effectively for the investment needs in our region. It will allow cheaper access to a wider variety of funding sources.

At the same time of course this will give rise to more business opportunities in the financial services field and lastly it will give us in Asia a greater voice in the world regulatory dialogue where the concerns of the North Atlantic are now dominant.

The more developed financial markets in Asia are well integrated with North Atlantic financial centres, but among Asian markets the level of integration is very low. Because Asian financial markets are fragmented and many of them are small, most of them are not attractive for issuers, investors and intermediaries compared to large and liquid North Atlantic markets.

In addition, there is a lack of harmony in the regulatory frameworks. A simple example is the lack of standard documentation for bond issues throughout the region. There will always be need for some variation to take care of local laws but greater standardization would make life easier for corporate and sovereign issuers and investors alike, resulting in lower fees and quicker access to market. More convergence of regulations and market practices would make it easier and less costly for market players to operate simultaneously in different markets, and to move capital across borders.

Particular areas of under development in most Asian markets are bonds and derivatives, even for straightforward instruments like interest rate swaps and foreign currency hedges where many markets are very shallow.

Let me give an example. Hong Kong Land, a company with which I am associated recently raised a 10 year fixed rate bond in US dollars which it was then able to swap into Hong Kong dollars, with part fixed and part on floating rates. Very useful and very flexible when it comes to financing our Hong Kong projects. But if we had wanted to do the same exercise for our Indonesian developments or indeed in most other countries of the region, it would not have been possible.

The reason is of course the absence of counter parties which is the same issue as the lack of a strong investor base for local currency bonds, which impedes the development of those markets.

Asian governments are aware of these needs. The Asian financial crisis underscored the wisdom of having more diverse financial markets including long-term local currency bond markets to avoid the double problem of currency and maturity mismatches. And progress has been made, particularly in the government bond market. We need to match that with equal progress in the local currency corporate bond market.

I believe it is now timely to move forward urgently in developing synergies in Asia's capital markets. Gaps need to be filled. Financial markets are complex structures that are made up of many parts, and bringing each of these into play more effectively will help accelerate the development of these markets. More needs to be done, as I mentioned, to develop a more diversified issuer and investor base, in particular the development of the insurance and pension fund industries.

One suggestion would be to encourage central banks in the region to invest in Asian governments' local currency bonds, perhaps reducing somewhat their huge purchases of US treasuries.

We should also not ignore the impact of global regulatory standards and frameworks, which can impede the development of the region's financial markets if they do not fit our realities and our needs. Our region should have a stronger and more unified voice in influencing the development of global regulatory standards and frameworks such as Basel 3.

In this next stage, to deal effectively with the complexity of financial markets and identify the unintended consequences of regulation that have the most significant impact, it is important to bring together the key players from the public and private sectors to try to hammer out some common strategies.

Which brings me to the idea I mentioned at the beginning of my remarks. In the APEC Business Advisory Council we have proposed to tackle these issues through a body that we call the Asia Pacific Financial Forum – or APFF – not of course to be confused with the AFF we are currently all attending!

Our ideas were developed over last year and the concept was presented to the APEC Finance Ministers when they met in Moscow last September, and gained their support in principle.

The APFF will be a platform for public-private collaboration to accelerate the development and integration of the region's financial markets. To take this forward, there is a Symposium planned for Sydney in three months' time under the auspices of the Australian Treasury, where we will gather a wide cross section of people from government, industry practitioners and academics, and also the main international and regional financial organisations.
It will focus on practical outcomes such as convergence of capital market regulations and practices; development of local currency corporate bond markets; and aligning global financial regulatory standards with the region's economic requirements. It will not for example debate the merits of a common Asian currency which was raised earlier today. A key lesson from Europe has been that a common currency cannot work well without a common fiscal policy and I think we would all agree that a common fiscal policy in Asia is unlikely in the foreseeable future.

Let me in closing comment on the role of Hong Kong. First, as others have noted, there has been some good progress in the last 18 months, for example in attracting a wider range of international issuers to our stock market, in working on Islamic finance and above all, with the support of the Central government, in the expansion of the use of offshore RMB.

Hong Kong hosts some of the region's strongest banks and has a vibrant asset management and private banking industry. It has great experience in the intermediation of financial products and services and great legal, accounting and regulatory expertise to support this. I hope and expect, therefore, that Hong Kong will play a major role in the upcoming discussions in Sydney and beyond, to the benefit not just of Hong Kong but of the whole region.

Thank you all very much.