Address by Dr. William Fung,
Chair of the Pacific Economic Cooperation Council (PECC)
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Mr. Akbar Tandjung [Speaker of the Indonesian Parliament], distinguished Members of Parliament, Ambassador Matsunaga and Kawakami, Mr. Wanandi, distinguished guests,

It is a great honour for me and my colleagues of PECC to be speaking to you on this special session on Indonesia. We are particularly privileged today to have the Honourable Members of the Indonesian Parliament with us. Your presence have underscored the importance of this Special Session.

2. Few topics are as controversial as globalisation. This is hardly surprising as it is a huge change that affects everyone and virtually every economy across the world. Many also believe that the financial crisis is in a way a consequence of globalisation. But like it or not, globalisation has become an irreversible force. It gives rise to ample opportunities; it also carries risks. To survive and succeed in an increasingly globalised world, it is important for us to first understand the benefits and negative effects of globalisation.

3. Globalisation offers tremendous opportunities. It allows economies in different stages of development to specialize in areas of

their comparative advantage. Distances are shortened and production cycle is speeded up. And technology advances expedites the flow of information. Companies, large and small alike, can now look beyond the boundaries of their economies for expansion and growth. The resultant surge in crossborder trade and investment is helping to raise living standards across the globe. In short, globalisation brings greater efficiency and prosperity.

4. Of course, globalisation carries risks that need to be managed. Closer integration through globalisation also means greater interdependence among economies. This has made all of us more vulnerable to the outside world. This is particularly true when integration outpaces one's ability to cope with the process. For example, the powerful interplay of financial liberalization, information technology, and globalisation of financial markets has given rise to risks in instability of capital flows, which was the main trigger for the financial turmoil in the region. Today, fund managers and international investors can easily move a huge amount of capital in and out of the physical realm of an economy. Such volatile capital flow at the global level, if not underpinned by a sound and strong domestic system, will cause problems.

5. Most of the PECC economies were victims of the financial crisis in 1997. What are the lessons? The financial crisis has unfolded the downside of globalisation and highlighted the need for reforms to strengthen our economies. The financial dislocations in the aftermath of the crisis led to huge debt foreign and domestic, closure of companies,

rising unemployment, etc., and caused greater disparity among different groups in the society. In face of this powerful force of globalisation and its associated risks, what should economies do in order to ride safely over this tide of globalisation?

6. The most important challenge of globalisation, as I see it, is how economies can best manage this irreversible process so that they can maximize opportunities while minimizing the associated risks.

7. In my view, it is paramount for economies to maintain a free and open trade and investment regime which, in the long run, is vital to its own growth and prosperity. And, having regard to their own circumstances, the economies should reform and restructure their domestic systems towards greater transparency and better corporate governance so that they are better equipped to manage the adjustments and increased competition that come with globalisation. By increasing their capacity to cope with change, hopefully they will be able to withstand the risks and impact arising from globalisation in the long run.

8. Few will argue that this capacity building approach is correct for one's economy in the long run. But what about the short run? Is there a case for drastic short term measures to shield one's economy from the ravages of hot money flows witnessed during the financial crisis of 97-98? Is Hong Kong Government's intervention in its stock market justified? Is Malaysia's imposition of capital controls necessary? Can

one justify these measures to buy time to effect the fundamental changes to infrastructural weaknesses in one's economy? These are controversial questions that perhaps we can debate over lunch today.

9. Later on in the session, various speakers from different PECC economies will share with you their own views on how to manage the risks at the international, regional and domestic levels in the long and the short run. Here, I would just like to share with you briefly Hong Kong's experience in dealing with the financial crisis which hit us three years ago.

10. Hong Kong is a staunch practitioner of free market economy and has built over the years a pretty sophisticated regulatory framework for the banking and securities sectors. Yet, we could not escape from being hit by the financial turmoil three years ago. It was a very painful period for us all in Hong Kong : speculators attacked our currency and stock markets, unemployment doubled to 6%, GDP for 1998 as a whole recorded a 5% negative growth, and property prices plummeted by almost 50%, causing much hardship to the people of Hong Kong.

11. Indeed, the financial crisis in 1997 not only rocked our economy but also exposed some inherent constraints and weaknesses in our economic structure. There are two : one : The Government was fully committed to maintaining the HK$ peg to the US$ at 7.80. The currency board system to maintain this rate was deemed to be essential to maintain

stability especially in the period of the transition of sovereignty in 1997. Two : After years of over-heated development, our economy was showing the characteristics of a "bubble" economy in the real estate sector. When prices in real estate sector fell, the whole economy of Hong Kong was affected.

12. Hong Kong is firmly committed to a free and open market, and we primarily let the market adjust itself. However, given its HK$-US$ peg, as the rest of Asia adjusted to the financial crisis by massive devaluations of their currencies, Hong Kong has to adjust by letting prices of everything fall and let decreased demand lead to more unemployment. But we did put forward a number of stimulus measures aimed at easing the pressures on the public and creating the conditions necessary for economic and social stability. Those measures included a moratorium on the land sales to stabilize property prices, various tax concessions to ease burden on families and business, the setting up of a fund to assist SMEs to obtain loans, substantial increase in government expenditure on infrastructure and the setting up of a Task Force on Employment to help the unemployed to find jobs and provide advice on relevant retraining programs.

13. On the financial side, the Government took a number of steps and measures aimed at supporting our currency and strengthening the markets. These included the incursion in the stock market in August 1998, which was an agonizing decision for the Government. We fully appreciated the risks of our action being misinterpreted as an attempt to

boost the stock market or as a departure from our firm commitment to the free market principle. However, given the extreme distortions in the market caused by manipulation then, had we not acted in August, there would have been excessive market volatility, which could have jeopardized the integrity of Hong Kong's financial markets and led to a collapse of community confidence. Hence it was an exceptional move in extraordinary circumstances and there is no question of us departing from our basic principle of free trade and open market. In fact, there has been wide recognition by many financial authorities including the International Monetary Fund that the Government's decisive action contributed to the stability in Hong Kong and the region.

14. In addition, the Government introduced a series of other measures to make our currency, securities and futures markets less susceptible to cross-market manipulation and volatilities. These comprised a package of technical measures and program to strengthen the currency board arrangements and to enhance discipline and transparency of the markets.

15. So as you can see, we have undergone some dramatic structural adjustments. With the joint efforts of the Government and the whole community, coupled with the improved economic performance of major overseas markets, our economy is now clearly out of the doldrums. In fact the recovery has been very robust since the beginning of this year. The seasonally adjusted unemployment rate stood at 4.8% in the three

months ending September 2000. The estimated GDP growth rate for 2000 has been revised upward again from 5% to 8.5%.

16. However, you can see that Hong Kong's response to the financial crisis was based on the peculiar circumstances of Hong Kong and might not be applicable to other economies

- we had a need to maintain the HK$-US$ peg
- we had enough reserves to effectively do that
- those big reserves also allowed us to fend off speculators in our stock markets
- we had very low unemployment rate to start with and can bear the social pain of a higher unemployment rate, at least for a period of time.

Hence, the lesson is that each economy must tailor its remedy to its own particular circumstances and priorities.

17. To sum up, globalisation has its positive and negative faces. The big challenge for all of us is to manage globalisation effectively in order to reap its benefits but avoid its downside. In the long run, we need to maintain a free and open trade and investment environment as well as to introduce reforms to strengthen our existing domestic systems. Our experience shows that sealing off and isolating one's economy is not the answer in the long run.

18. Last but not least, globalisation is still too often misunderstood. At the moment, various economies and fora, such as PECC, APEC and WTO, are actively promoting a better understanding of the benefits of globalisation. More such public education efforts are necessary, as public support is key to successful reforms and progressive liberalization of trade and investment at the domestic, regional and international levels. We need to do more constituency building to ensure public support for changes.

19. Today, I am very glad to have this opportunity to exchange views and experience with Members of the Indonesian Parliament on this very important subject of globalisation. With about 210 million people, Indonesia is the anchor of South-East Asia. Hence, its stability and prosperity is vital not only to Indonesia itself, but also to the ASEAN and indeed to the region as a whole. We are thus most happy to organize this special session to enable PECC members to share our experience with Indonesia, and hopefully through this exchange, to contribute to Indonesia's efforts in effectively managing the globalisation process.

20. I therefore very much look forward to a fruitful exchange in the ensuing discussions and would also like to invite you to join the public seminar after this working luncheon during which a panel of PECC experts will share the experiences of their economies in dealing with globalisation in areas such as financial openness and reform, corporate governance, competition policy, industrial policy and

agricultural reform. We hope that our experiences would be useful to Indonesia. Thank you.

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