Closing Session

PECC International Conference on ‘Competition among Financial Centers in the Asia-Pacific: Prospects, Benefits and Costs’

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Concluding Observations

I have asked three eminent experts on the subject matter of this conference to write a synthesis of the presentations and discussions which we have heard during last one and a half days. They are Prof. Dosoung Choi of Korea, Prof. Jesus Seade of Hong Kong, and Prof. Sayuri Shirai of Japan. I have asked Prof. Choi, my co-host for this event, to coordinate the synthesis work. The synthesis report will be prepared before the end of the year and released early next year. It will also be submitted to the Finance Ministers Meetings of both APEC and ASEAN Plus Three. We have just now heard from Prof. Hugh Patrick and two of the synthesis authors. Let me add a few thoughts of mine.

The objective in organizing this conference was not to build advocacy for the promotion of competition among financial centers in the region. But it was probably inevitable that we came to agree broadly that such competition is ‘good’ and should be encouraged. I, for one, believe that competition among the financial centers in the region is accelerating the national efforts to deregulate and internationalize, with focus on the financial sector but with far-reaching knock-on effects on the rest of the respective national economies. This must be basically a “good” competition to have.

The financial center competition is more a market infrastructure competition than a physical infrastructure competition. Accordingly, I don’t see much room for harmful competition, provided that all competitors play the game right. It tends to encourage and even force the respective national economies to modernize their financial sectors and enhance the competitiveness of the whole economies. Accordingly, with an appropriate reservation, I think that the financial center competition will not be a win-or-lose competition, but more a market share competition. All financial centers will gain more or less, i.e., in different degrees, and there will no “failure” to talk about. And the financial center competition will also help to modernize the economies of the region as a whole, and to increase their combined market share in the global market. Both in the regional context and in the global context, the financial center competition will encourage the emergence of intra-financial-industry specialization, carving out a pattern of comparative advantages among the players, and increasing the size of the pie itself.

Having said this, however, I still would like to ask the authors of the synthesis report to focus as much on possible problems in the competition as on the benefits in it for the purpose of this project. In this regard, I have already mentioned in my opening remarks some of the misgivings which should be considered. They all have to do with the behaviors of the national governments and are associated with the question of whether the governments play the game right in competing against each other as promoters of their respective financial centers. I want to briefly revisit three possible problems.

First, there is the question of possible competitive subsidization. Possible “harmful” tax incentive competition may be an issue worth considering in this regard.

Second, there is the question of possible competitive and excessive deregulation, or by the same token, the possible problem of failure to create a coherent and appropriate regulatory regime for the region, and more broadly speaking, the necessary financial and capital-market infrastructure for the region a whole.

To give an example, in Korea, there is a call for the regulation of “predatory behaviors by foreign speculators who seek to take make use of international tax havens in order to realize a huge windfall”. Is this a legitimate complaint or simply a genophobic nonsense?

To give another example, with competitive domestic market-opening and financial liberalization, financial center competition may make national economies increasingly more vulnerable to crises like the American sub-prime mortgage problem.

Third, there is the possible problem of financial mercantilism as well as financial protectionism. One obvious way in which this problem could arise is for national governments to try to prop up certain financial institutions as “national champions”. A national government may promote a state-run or state-supported bank as a national champion bank. National governments may use the public pension fund for the purpose of favoring certain domestic financial institutions. They may use sovereign wealth funds in order to pursue certain mercantilist goals. So, how is a “good” government supposed to run its sovereign wealth funds? And for that matter, how should it cope with the inroad by foreign sovereign wealth funds?

I invite attention to these possible problems in order to illustrate areas of possible policy cooperation among national governments in responding to competition among financial centers in the region. I hope that the synthesis authors will these areas in some depth.

Closing Remarks

Let me now rise to the podium in order to make due recognition before drawing the curtain.

This conference, as we all will agree, has been a spectacular success in many regards. For this, KOPEC is indebted to so many people.

First of all, on behalf of KOPEC, I would like to thank Mr. Dominic Barton, the keynote speaker, and the authors of the seven case studies. I also thank all the discussants and panelists. All these speakers were very substantive, informative, provocative as well as inspiring.

Second of all, I would like to thank to all other participants in this conference for joining in the conference and helping to liven up the discussion.

Third, I thank those several PECC member committees which have actively supported, and participated in, this conference. I am particularly grateful to the Singapore and Hong Kong PECC committees, for their strong support for this project.

Fourth, I thank the Financial Times once again for its media partnership support for this conference.

Sixth, I would like to express my special thanks to all those foreign participants who have flown long ways to be here at this conference as speakers or general participants.

Seventh, I would like to thank Dr. Sang-Kyum Kim, the Executive Director, and other staff, of KOPEC who have been working hard over last few months in order to bring about such an impeccably organized international conference. I would like to give a very special recognition to Ms. Eunsuk Lee, in particular, who has worked very hard with me in order to ensure the success of this conference. I also thank the staff of the Korea Security Research Institute who have worked closely with the KOPEC staff in running this conference.
Last but not least, I would like to thank my partner, Prof. Dosoung Choi, for the close consultation he has provide me with in preparing this conference. I also thank him for the important assignment he has taken on, that is, to work with Professors Sayuri Shirai and Jesus Seade in order to prepare the synthesis report as well as the publication of the conference proceeding.

I thank all the participants once again, and I now declare the conference closed.

Thank you.