

15th China International Finance Forum

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Opening Ceremony and Keynote Speech I

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Construction of a Modern Financial System for High-Quality Development

SLIDE 1

Thank you for the invitation to address this opening session of the 15th China International Finance Forum (CIFF). What I say today are my views, and I am not speaking on behalf of my former employers such as the Australian Securities and Investments Commission (ASIC) or Citibank.

Nevertheless, I know that I bring best wishes to you from Australia, as the Australian economy and population benefit greatly if development goes well in China. Creating a sound financial system that supports high-quality development for China is a vital matter for us all.

SLIDE 2

A modern financial system for high-quality development has to perform many basic functions and needs several characteristics. It needs to:

- Intermediate borrowers and lenders
- Have deep markets for debt and equity finance, a wide product range and long tenor of instruments
- Be competitive, provide choices
- Be innovative and responsive to needs
- Be efficient (low cost)
- Be fair to customers (because of asymmetric information)
- Be open every working day – and not suffer “sudden stops”

SLIDE 3

But above all the financial system must serve the needs of all of the population, and not just the needs (and the greed) of the financiers. Aiming for an excellent financial system is not an end in itself, it is only a means to a greater end.

I have included the United Nations Sustainable Development Goals for 2015 – 2030 to show the breadth of these needs for economic and social development.

There are 17 equally important goals (no poverty or hunger, improved health, education and gender equality, clean water and energy, more jobs and economic growth, innovation and infrastructure, less inequality, better cities and rural life, environmental sustainability and more peace and justice and partnerships).

Yes, this is ambitious! Note that the financial system is just a tool – of course, an important tool – to help achieve the growth and development that society and the economy needs.

I am pleased that the topics for the 15th China International Finance Forum are very much aligned to helping achieve the UN Sustainable Development Goals. Improvements in financial technology, leasing and banking and insurance, financial inclusion, overseas stock listing, wealth management and supply chains can contribute to achieving all 17 Sustainable Development Goals.

SLIDE 4

So what does China need of its financial system? What challenges have to be tackled?

For me, the major policy and regulatory challenges or questions that China will soon confront are:

1. Financing China's ambition to lead in high-technology e.g. bio-tech?
2. Achieving financial system stability?
3. Opening up to more information and transparency, as well as to international banks, investors and markets?

And finally

4. Knowing when there is "too much" financial sector growth in China, hurting the economy and society?

The answer in an engineering sense is almost always that what China's financial system needs is deeper, more resilient and more internationally-connected equity markets. I am speaking on overseas stock listing tomorrow.

SLIDE 5

How Australia has built its financial system may be a guide for China's next phase. I show here the five pillars of the successful financial system created over the last several decades in Australia. The five pillars are:

1. Low inflation targeted by the central bank
2. Budget balance – not every year but over an economic cycle – targeted by the fiscal authorities
3. A market exchange rate (and open capital flows)
4. Sound prudential standards for banks and insurers and
5. Market integrity

Australia faces many old and new challenges, but these five pillars have become the bedrock of Australia's success – no recession for over 25 years, no bank collapses, a big pension pool, and financial markets open for business despite the volatility from shocks from overseas.

Now nothing is perfect – even in Australia – and I do not think Australia has really begun to properly tackle the question of whether we have "too much" finance.

SLIDE 6

One way may be to ensure that those in the financial system –the institutions, the banks, insurers and wealth managers, and others – do act in society’s interests. But how to do this?

Australia currently has a Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (what we call the Hayne Inquiry, as Justice Hayne is the Royal Commissioner). It has been exposing a lot of mischief and illegality. It has been very embarrassing for many and there will be prosecutions, fines and jail for some.

In its Interim Report, it has set out 6 very useful normative principles for behaviour in the financial sector which – if adhered to – would go a long way towards building a financial system that does serve the needs of the community and the economy:

1. Obey the law
2. Do not deceive or mislead
3. Be fair
4. Provide services that are fit for purpose
5. Deliver services with reasonable care and skill and
6. When acting for another person, act in the best interests of that other person

Pretty good! There would be no need for more regulation if financiers behaved in line with these 6 principles. The financial system would be smaller, but it would very adequately serve the financing needs of high-quality development. These principles are worth thinking about in China too.

My best wishes for a productive 15th China International Finance Forum. Thank you.