

## Speech

### **Speech by SFST at HKETO and Belgium-Hong Kong Society Luncheon in Brussels (English only)**

Wednesday, May 6, 2009

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Economic and Trade Office in Brussels and Belgium-Hong Kong Society Luncheon in Brussels, Belgium today (May 5, Brussels time):

Mr (Piet) Steel, distinguished guests, ladies and gentlemen,

Good afternoon.

It is a great pleasure to be here in Brussels. Thank you for your warm hospitality. I can't think of a more appropriate place to begin my trip than in the city known as the "Capital of Europe".

Of course, Europe is our second largest trading partner, which gives me another good reason to pay you a visit.

Today, I will update you on Hong Kong's latest developments, our role as a Gateway to China, and how Hong Kong is now facing up to the challenges of the global financial tsunami.

#### Hong Kong's Roles as an International Financial and Business Centre

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The International Monetary Fund recently lowered its forecast for global growth this year, predicting a decline of between 1% and 1.5%.

It also projected a full-year economic contraction in advanced economies, which would be the first time that has happened in the post-war era. Indeed, in recent months, market turbulence has escalated following the meltdown of a number of major financial institutions around the world. The present financial turmoil has given rise to a series of questions, such as whether a new global

order would emerge. The communiqué of the recent G20 Summit held in London in particular calls for international co-operation to restore confidence, growth and jobs.

In the face of global financial volatility, Hong Kong remains fully committed to the open market and free trade principles that have brought us success in the past. And we will continue to co-ordinate our recovery efforts with our partners around the world, including here in Europe. Through good times, and bad, Hong Kong has put in a lot of effort to develop and maintain our position as Asia's most vibrant business and financial centre. We have achieved this, thanks to Hong Kong's fundamental pillars of success: the international outlook of its government and people, our vast pool of talents, talents with extensive global experience, our fiercely independent judiciary which scrupulously upholds the rule of law, and, of course, the free flow of information and of capital.

Earlier this year, Hong Kong was named as the freest economy in the world by the US-based Heritage Foundation for the 15th year in a row.

Last year, we lowered taxes to further improve our competitiveness, and to make our business-friendly environment even friendlier. Profits tax is currently at 16.5% and salaries tax is 15%. There is no VAT, no GST, no death duties, and no capital gains tax. In other words, you keep most of what you earn.

#### Opportunities in Mainland China

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Since the establishment of the Hong Kong Special Administrative Region 12 years ago, the city has become a much closer partner in our nation's reform and opening up process. After 30 years of reform, the Mainland of China is not just increasingly integrated with the world economy; it is of late one of the key engines of global economic growth. In this connection, we are glad that we already have considerable experience in doing business with our neighbouring provinces across the boundary and we have the world-class soft and hard infrastructure to facilitate trade. We share the same culture and language as our counterparts on the Mainland, and we know what it takes to succeed in China.

Urbanisation and industrialisation have changed the face of our nation. The growth in domestic consumption has been phenomenal, and it is being measured not just in terms of quantity, but also quality. This has driven manufacturing industries up the value chain and speeded up the development of the service sector. In turn, our own economy has shifted towards higher value-added services.

In recent years, two emerging trends have further strengthened Hong Kong's status as a regional and even international hub: more multinationals have upgraded their Hong Kong operation by adding regional and even global responsibilities, while more and more Mainland companies have established local offices here to capture the business opportunities Hong Kong offers. We are, indeed, a city that shows both sides of the coin at once - an Asian economic hub with an international mindset, and at the same time, a Special Administrative Region of China that is clearing a path to reach the hinterland. We move easily between our two roles - between the one country and the two systems.

Today, more than 6,600 overseas and Mainland companies have a presence in Hong Kong. Around half of these companies serve as regional headquarters or offices, and among them, many are of EU origin. There is plenty of room for more companies to join them and we will continue to work hard to provide the best business environment.

Why choose Hong Kong? Our commitment to fair play and transparency in trade and commerce is plain for all to see. It is the bedrock of our success. Furthermore, we have a sound banking system, with the presence of around 70 of the world's largest 100 banks. Investors and fund-raisers from across the world flock to Hong Kong for financial intermediation.

Latest figures show that Hong Kong's combined fund management business amounted to more than US\$1.2 trillion at end 2007. Around 70% of this was sourced from Mainland and overseas investors. This vote of confidence further energises us to meet the constant challenges that Hong Kong faces in maintaining our role as Asia's financial capital.

Hong Kong as a Gateway to China

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The rapid pace of economic development on the Mainland has brought with it enormous potential for growth in the region. As the most open, free and cosmopolitan city in China, Hong Kong has a dual role to play. On the one hand, we are Asia's world city - a global centre for financial services, business services and trade. On the other hand, we are an international city in China, with a unique and irreplaceable role to play in our nation's continued opening up and engagement with the global village.

We are a major investor in China, as well as an usher for investment in China from Belgium and elsewhere. Belgian investors can use Hong Kong as a platform for developing regional and international business. For those who are interested in capitalising on the growth of the Mainland's economy, the most effective route is through buying Chinese enterprises shares listed on the Hong Kong stock exchange. In this connection, our stock exchange has successfully hosted the largest Initial Public Offerings (IPOs) of Chinese enterprises globally. Today, some 470 Mainland enterprises are listed in Hong Kong, covering a wide spectrum of businesses, ranging from financial institutions, oil refineries and airports to supermarkets and breweries. This has made our stock exchange the seventh largest bourse in the world in terms of market capitalisation.

Hong Kong has long served as a gateway to China for international trade. Being part of China, plus our close ties with Mainland businesses, gives us unique advantages in partnering with foreign enterprises that want to do business across the boundary. After all, Hong Kong is the largest source of external direct investment into the Mainland. I encourage Belgian corporations to work hand-in-hand with Hong Kong firms to take advantage of those long-established and extensive investments to expand into that huge marketplace.

#### Enhanced Cooperation Between Hong Kong and Mainland China

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One of the keys to enhancing Hong Kong's competitiveness as an international business and financial centre is to foster closer co-operation with the Mainland of China. This is one area that the Hong Kong Government has been working hard on. In this connection, we have also seen some

opportunities for greater financial integration with the Mainland emerging from the financial crisis.

One promising area is trade settlement using the Mainland currency, Renminbi (RMB). Last December, the Central Government in Beijing has announced a pilot scheme for using RMB for cross-border trade settlements and Hong Kong would be the first place outside the Mainland to benefit from the scheme.

Both our financial industry and trade between the two places will benefit immensely from this breakthrough. The close trade partnership between Hong Kong and the Mainland has laid a solid foundation for developing RMB-denominated transactions. Enterprises in Hong Kong will soon be able to settle trades in RMB through the banks with the mainland companies in the pilot scheme.

This initiative will reduce settlement risk, and help increase the scope of Hong Kong's financial services and enhance Hong Kong's role as the financial gateway to the Mainland. We will announce the implementation details as soon as they are finalised.

Since 2004, our banks have been offering RMB services, which today include RMB deposits, currency exchange, remittances, credit cards and personal cheques. As at the end of February, the outstanding amount of RMB deposits in Hong Kong banks was 54.4 billion RMB or about US\$7.7 billion.

Since 2007, there have been seven RMB bond issues in the city amounting to 22 billion RMB, or about US\$3.2 billion. Hong Kong remains the only place outside the Mainland with a RMB bond market. Indeed, at the Boao Forum held just two weeks ago, the Central Government pledged more measures to support Hong Kong by encouraging Mainland subsidiaries of Hong Kong banks to issue RMB bonds in Hong Kong, to study whether the Central Government can issue bonds in Hong Kong, and to allow Hong Kong enterprises to use their assets in Hong Kong as collateral in securing loans from Hong Kong banks on the Mainland.

We will continue to work towards aligning our two financial systems to become a more efficient and low risk corridor for investment into and out of

the Mainland.

I am pleased to tell you that the multi-currency cross-border payment arrangements between the Mainland of China and Hong Kong, which cover Hong Kong Dollar, Euro, US Dollar, and British Pound, has been in operation since mid-March. This is an important move that increases the efficiency of cross-border multi-currency payments and reduces risks and costs. Nowhere else can deliver this service. It also marks the deepening of financial co-operation between the Mainland and Hong Kong.

### Facing Challenges under the Recent Financial Turmoil

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The financial tsunami we now face is a global crisis. Its destructive force is much stronger and more widespread than the Asian financial turmoil we faced a decade ago.

Although Hong Kong and Belgium are two relatively small economies, we have not escaped the impact of the crisis. I note that Prime Minister Van Rompuy has pledged to fully implement an economic re-launch plan as Belgium's active response to the financial crisis.

In Hong Kong, we have also taken a series of measures to deal with the economic downturn. For example, we have guaranteed bank deposits in Hong Kong and made more capital available to our banking sector. And, because small and medium sized enterprises are so important to our economy, we have re-doubled efforts to help them by guaranteeing their loans and, easing export credit insurance criteria. We are also assisting with promotional activities and information sharing.

So far, our efforts have paid off. Our economy remains stable, efficient and in a strong position to navigate through the financial storm. This is good for us, good for our country and good for our trading partners, including Belgium.

Furthermore, in battling the global financial crisis, we have upheld co-operation over isolation and free trade over protectionist measures. We are working closely with other economies and the international financial community in responding to the crisis with a view to reaching a consensus on a

new financial architecture to better suit our globalised world. We also fully support measures agreed at the G20 Summit, which include their calls for greater transparency and co-operation among the world's regulators to prevent a repeat of the contagion effect, which has been a feature of the current economic crisis.

## Conclusion

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Ladies and Gentlemen, I hope I have been able to give you a clear picture of where Hong Kong is today and our determination to make a strong and early recovery from the global financial crisis. Although the world economy is now experiencing some of its darkest days in recent history, Hong Kong will continue our constant pursuit of maintaining our competitive edge amongst the leading financial and business centres of the world.

Once again, thank you for your wonderful hospitality. I am confident that, together, we can turn the current economic challenges into opportunities for greater co-operation and deeper relations between Hong Kong and Belgium. Thank you very much.