

## Speech

### Speech by SFST in Tokyo (English only)

Tuesday, November 10, 2009

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at a listing conference in Tokyo, Japan, today (November 10):

Distinguished guests, ladies and gentlemen,

It gives me great pleasure to join you this afternoon at the conference.

I would like to thank the organisers for inviting me to this event, giving me a chance to share with you some of our thoughts on how Hong Kong can serve as a gateway for Japanese companies to gain access to China, one of the most dynamic and rapidly growing capital markets around the globe.

Outlook of Asian and Chinese economic landscape after the financial crisis

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In the past year, we have witnessed the worst-ever financial crisis in a century and its devastating impact on international financial institutions as well as the global economy.

Asia's export-oriented economies were battered by the abrupt downturn. The GDP of Japan shrank by well above 10% on an annualised basis in the two quarters following the Lehman Brothers bankruptcy. We saw a bad first quarter in 2009, but the situation has improved since then, and for Hong Kong, we expect negative growth for our economy this year of between -3.5% and -4.5%.

Among all the Asian nations, China is one of the very few that have escaped a severe recession. The IMF forecasts that China's GDP will continue growing between 7.5% and 10.7% annually in the next five years.

China's performance during the crisis shows the vast potential of the country and the enormous opportunities to investors. China's GDP rose to over RMB 30 trillion last year and with its ongoing economic liberalisation efforts, together with a large and increasingly affluent population and a high savings rate, there are undoubtedly vast opportunities for all Asian firms.

In fact, all along, Japan has been an important trading partner of China. Japan was the third largest source of foreign direct investment (FDI) up to September 2009, with a total amount of US\$3.2 billion. In 2008, bilateral trade value reached US\$267 billion, an increase of 13% year-on-year. Up to 2008, Hong Kong and Japan have also engaged in close economic relations: there are 238 headquarters, 494 regional offices and 440 local offices established in Hong Kong from Japan. In the following, I shall explain to you why these Japanese companies have all chosen to come to Hong Kong.

Hong Kong as an international financial centre in the Asia time zone

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With a highly open and internationalised financial platform and its unique advantage under "One Country, Two Systems", Hong Kong is best positioned to serve as a gateway to China to capitalise on China's growth.

Hong Kong is a major asset management centre in Asia. Our combined fund management business amounted to HK\$5.8 trillion (US\$750 billion) in 2008, about 70% of which was sourced overseas. Meanwhile, we have also maintained our position as the Asia's third largest international banking centre and the world's 15th largest. Hong Kong is also the sixth largest centre for foreign exchange trading. As at end September 2009, 69 of the world's 100 top banks were operating in Hong Kong.

We also have the highest concentration of insurers in Asia (173 authorised insurers). In 2008, the total gross premium income amounted to approximately US\$24.2 billion (-4.4% from 2007).

Furthermore, our stock market ranked seventh in the world and third in Asia in terms of market capitalisation, amounting to about HK\$15 trillion (about US\$2 trillion). The Hong Kong securities market provides a platform with a

deep and liquid capital pool and world-class fund raising capabilities.

The competitiveness of Hong Kong as an international financial centre has been recognised worldwide. In the Global Competitiveness Report published by the World Economic Forum last month, Hong Kong continued to rank first out of 133 economies in the financial market pillar. A survey by the City of London Corporation Global Financial Centres Index released this year ranks Hong Kong as the third global financial centre in the world, after London and New York.

Our fundamental strengths include our simple and low taxes; high-quality services; free flow of information and capital with no foreign exchange controls, and a stable, fully convertible currency, as well as a free economy buttressed by the rule of law and an independent judiciary. Our regulatory regime is on a par with international standards, and our regulators are tasked to ensure a fair, transparent and orderly market.

Hong Kong as China's capital formation centre and asset management centre

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To leverage on these strengths and the unique advantage under "One Country, Two Systems", Hong Kong is striving to develop into a global capital formation centre, asset management centre and offshore RMB business centre, particularly with regard to China.

Hong Kong has been the premier international fund-raising centre for Mainland enterprises. As at end September 2009, 483 Mainland enterprises were listed in Hong Kong, together raising a total of HK\$2,310 billion since 1993. The 10 largest IPOs listed on the Stock Exchange of Hong Kong were all from the Mainland. There are currently three Japanese companies listed on the Hong Kong Stock Exchange, and we hope to see more use our market.

The Mainland's large and increasingly affluent population renders Hong Kong as an ideal - and logical - wealth management centre for Mainland individuals and institutions. Hong Kong is best placed to serve as an effective channel for orderly capital outflows from the Mainland, and Mainland financial institutions can manage their overseas investments through Hong Kong.

Indeed, Hong Kong serves as a unique portal for overseas funds and fund managers seeking business opportunities from the burgeoning Mainland economy. As at the end of September, we have 126 authorised funds with Mainland China exposure, including the three Mainland A-share ETFs. Overseas fund houses in Hong Kong also have the edge of gaining first hand information regarding Mainland assets and investments.

As at September 30, 2009, among the Securities and Futures Commission-licensed corporations in Hong Kong, 36 of them had controlling shareholders from Japan. They are involved in a wide range of securities and investment banking business, servicing Japanese as well as overseas investors.

Similarly, Japanese fund managers stationed in Hong Kong also benefit from their presence in Hong Kong in that they enjoy the access and proximity to the investment community in Hong Kong as well as the investment capital available in Hong Kong. Such investment capital not only comprises capital derived from investors in Hong Kong, but also from those overseas and on the Mainland that seek to capitalise on Hong Kong's expertise in managing Asian investments. They could, for instance, help Mainland investors obtain overseas investment exposure via the QDII programme pursuant to Hong Kong's platform.

As for the banking industry, currently 15 Japanese authorised institutions are operating in Hong Kong. Over the years, they have been active in our market, particularly in the provision of corporate banking and asset management services to customers with Mainland backgrounds.

#### Hong Kong as China's offshore RMB business centre

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Last but not least, the rise and liberalisation of RMB business will offer new opportunities to Hong Kong as well as many Asian financial services firms. Many of these opportunities will be found in Hong Kong. Given our cultural affinities, robust risk management systems, and close economic ties with the Mainland, Hong Kong is best placed to serve as a testing ground for the development of RMB business outside the Mainland.

We have been working with the relevant Mainland authorities, our financial

regulators and the trade to attract more RMB liquidity and to build a market offering a broad range of RMB products and services. There has been significant progress in the development of RMB business in Hong Kong. The RMB trade settlement pilot scheme, which commenced operation in July, is offering eligible enterprises an option to settle trade transactions in RMB. We believe that the settlement volume will continue to increase gradually. Also, Hong Kong banks on the Mainland are also allowed to issue RMB bonds in Hong Kong. On September 28, 2009, the Ministry of Finance, as the agent of the Central Government, launched the inaugural RMB sovereign bond issue, totalling RMB 6 billion, in Hong Kong. It has recorded a very high over-subscription rate.

The measures which seek to widen the scope of institutions that may issue RMB bonds in Hong Kong can be seen as an encouraging start to Hong Kong's development into a dynamic offshore RMB centre for China. Hong Kong serves as a good pioneering ground for offshore RMB because it has a well functioning financial infrastructure. We hope to see a broad range of RMB related investment products with the pace of the liberalisation of the RMB.

#### Hong Kong as the unique gateway

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I believe Hong Kong is truly a very unique gateway to the Greater China region. Our close ties with major Chinese provinces and cities, in particular Guangdong and the Pearl River Delta, as well as Macao and Taiwan, present to you vast investment opportunities and convenience in developing your business. There are certain privileges and channels that are only beneficial to Hong Kong-based companies regardless of their nationality.

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) implemented since January 2004 has further strengthened Hong Kong's economic ties with the Mainland. CEPA provides a major force in furthering mutual economic benefits for both the Mainland and Hong Kong, and to Hong Kong businesses, both local and foreign-owned. CEPA provides a new two-way economic platform, bringing Mainland enterprises and investments to reach out to Hong Kong and the global market as well as bringing foreign investments into the Mainland, thus further strengthening Hong Kong's key intermediary role.

Furthermore, we will continue to leverage on measures for "early and pilot implementation" in Guangdong Province to enhance the two-way flow of financial institutions, financial products, capital and talent between Hong Kong and the Pearl River Delta region.

Concluding remarks

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Finally, I would also take this opportunity to invite you to the Asian Financial Forum 2010 to be held in January in Hong Kong. It will be an exciting forum for you to meet the Hong Kong investment community and to exchange insights on the latest market trends and regulatory issues.

Ladies and gentlemen, Asia is gaining increasing influence in the global economy, it is time we strengthen our co-operation and seize every opportunity, especially those coming along with the rise of China. The Hong Kong Government is fully committed to working with other Asian economies, we welcome you to invest in Hong Kong, and to invest in China through Hong Kong.

I hope you will find today's conference informative and useful. Have a nice day. Thank you.