

**Press release**

**LCQ14: Impact of the Shanghai pilot free trade zone on Hong Kong**

Wednesday, October 30, 2013

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (October 30):

Question:

Recently, the State Council announced the launch of the China (Shanghai) Pilot Free Trade Zone Scheme to set up the Shanghai free trade zone (FTZ). The objectives of setting up FTZ include liberalisation of the Renminbi (RMB) capital accounts, implementation of a taxation policy which promotes investment, and development of offshore financial business. According to some analyses, the setting up of FTZ will pose a threat to Hong Kong and deal a blow to its status as an offshore RMB business centre. There are also concerns that the Central People's Government is copying the model of Hong Kong's economy on the Mainland. Nevertheless, the Secretary for Financial Services and the Treasury (SFST) told the media that FTZ is only "a testing ground for the liberalisation of the economy", and Hong Kong should not be over worried about losing business to FTZ. In this connection, will the Government inform this Council:

(a) whether it has conducted a comprehensive assessment on the impact of FTZ upon Hong Kong, in particular its short and long term impact on Hong Kong's economic and financial development as well as its impact upon Hong Kong as an offshore RMB business centre; if it has, of the details; if not, the reasons for that; and whether it has assessed if SFST's view that FTZ is only a testing ground instead of an offshore centre is over optimistic; if it has, of the assessment results;

(b) whether it has formulated plans to seek cooperation with FTZ, e.g. enhancing liaison with FTZ with the support of Hong Kong's comprehensive financial infrastructure, banking services which are in line with international standards and the supplementary facilitates in the entire financial market, so as to increase cooperation between Hong Kong and Shanghai in order to achieve mutual benefits; if it has, of the details; if not, the reasons for that; and

(c) in the face of the challenges brought about by FTZ, of the authorities' specific

measures to consolidate Hong Kong's status as an offshore RMB business centre, e.g. whether they will consider cooperating with the authorities of Guangdong Province and Macao in developing a Guangdong-Hong Kong-Macao FTZ?

Reply:

President,

The State Council announced the General Plan for the China (Shanghai) Pilot Free Trade Zone (FTZ) on September 27, 2013. The General Plan emphasised that the FTZ is a "testing ground" to propel the Mainland's opening up and reforms. The FTZ seeks to deepen the reforms, speed up changes in governmental functions, modernise trade and investment management, facilitate trade and investment, and with safeguards against possible risks, further open up the services sector and push forward the opening up of and innovation in the financial sector. Through these, the FTZ will be a model from which "replicable" and "promotable" experience can be shared as a model for and to better serve the whole nation.

In the long run, the impact of the establishment of FTZ on the overall economy of Hong Kong will depend on the extent of the liberalisation measures of the FTZ and the regulatory mechanisms, etc. As the General Plan for the FTZ was only announced in end September 2013, details of a number of policies have yet to be announced. For example, details of the policies on Renminbi (RMB) capital account convertibility and cross-border use of the RMB are still under study and being formulated. We would only be able to make a more detailed study and assessment on the impact of the FTZ on Hong Kong's future economy when the relevant details are available.

Over the past few years, the Mainland has taken forward financial reforms on various fronts, including expanding liberalisation of capital account and the greater use of RMB in cross-border trade. With its first-mover advantage and unique edge, Hong Kong has capitalised on the opportunities of the country's deepening reforms, and has developed into the world's largest offshore RMB business centre. It has, among other things, the world's largest offshore pool of RMB funds and RMB financing market, and provides a diversity of RMB financial products and one-stop RMB services for enterprises and financial institutions from all over the world. At present, the value of RMB settlement handled by banks in Hong Kong accounts for nearly 80% of the total payments that are conducted with the Mainland and among the offshore market globally, ranking number one in the world.

Regarding the co-operation between Shanghai and Hong Kong, since the signing of a Memorandum of Understanding Concerning Advancing Hong Kong-Shanghai Financial Co-operation in January 2010, the two places have held discussions on ways to strengthen co-operation in four areas, namely the development of the securities markets, the development of the bond markets, the promotion and support of mutual establishment of financial institutions, and the training and exchange of financial talents. In March 2013, representatives of government departments, financial regulators and exchanges of Hong Kong and Shanghai held the third meeting in Hong Kong. Both sides discussed and exchanged views on ways to foster the co-operation in financial services and products, enhance the training and exchange of financial talent, and strengthen the co-operation of financial institutions between the two places. We believe that with the establishment of the FTZ, there will be more opportunities for co-operation between Shanghai and Hong Kong. We will forge a closer partnership with Shanghai through more exchanges and communications for mutual benefits and the overall development needs of our country.

As for co-operation with Guangdong, Hong Kong and Guangdong have all along been maintaining close co-operation in economic and financial areas. For example, the two sides have been strengthening the co-operation and exchange in respect of financial institutions, financial instruments, capital and talents through the Mainland and Hong Kong Closer Economic Partnership Arrangement and platforms like the Expert Group on Hong Kong-Guangdong Financial Co-operation. This long-established and close co-operation relationship provides the basis for enhancing communication and co-operation between Guangdong and Hong Kong. Building on this foundation and complementing national policy planning, Hong Kong can play its part by providing financing support for industrial upgrading in Guangdong and Pearl River Delta, while the Guangdong Province can continue its role as the "early and pilot implementation" platform for financial co-operation between the Mainland and Hong Kong, in particular enhancing co-operation on cross-border RMB business between the two places. This will not only provide support for economic development of the Guangdong Province, especially in some key areas, but also promote the development of Hong Kong as an offshore RMB business centre.

In the past few decades, Hong Kong has contributed to the country's reform and opening up, and has also grasped many opportunities during the process. Therefore, the Special Administrative Region Government supports the national policy of further reform and opening up, and believes that Hong Kong, as an international financial

centre of global influence, will be able to contribute to the further liberalisation of the financial markets in the Mainland. To this end, it is most important for Hong Kong to continue to develop its talent pool, enhance its market infrastructure and improve its market quality for market development. At the same time, we should complement the policies introduced by the Central Government and play more effectively the first-mover role in the process of developing a diversified financial market in the Mainland and expediting the internationalisation of the RMB.

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