

Speech

Speech by SFST at Standard Chartered Hong Kong Forum (English only)

Thursday, March 10, 2011

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, on "The Super Cycle: Emerging Economies Poised to Accelerate" at the Standard Chartered Hong Kong Forum today (March 10):

Good morning, ladies and gentlemen,

It gives me great pleasure to attend this forum organised by Standard Chartered Hong Kong. The theme of this conference "The Super Cycle: Emerging Economies Poised to Accelerate" is very timely. Hong Kong is in the eye of the latest economic explosion. We have traditionally connected the international business community with opportunities in emerging markets in Asia, particularly Mainland China. Our professionals will be able to give you first hand account of the latest developments.

This conference also allows me to share with you the economic outlook in this region, where China stands today and how Hong Kong fits into the picture.

Shifting of financial centre of gravity to the east

In the wake of the Great Financial Crisis, Asia and other emerging markets have regained their growth momentum.

Thanks to the strong growth in the Mainland and Asia, Hong Kong's economy has surpassed its pre-tsunami level. For 2010 as a whole, we saw strong GDP growth of 6.8%, exports of goods soared by 17.3%, investment spending grew by 8.1% and unemployment dropped to 3.8%.

On the other hand, the European and the US economies are still faced with uncertainties with respect to their path to recovery. Deleveraging and high unemployment over there are expected to linger on. The sovereign debt crisis has yet to be fully resolved in the Eurozone.

Against this backdrop, it is not surprising that the centre of economic gravity has shifted from the West to the East.

Nonetheless, 2011 will still be a challenging year for our economy. The soft US dollar and possible sustained increase in global food and commodity prices will put more inflationary pressure on Hong Kong.

The second round of quantitative easing by the US has, as the Chinese saying goes "add fuel to fire" to our already buoyant property market.

We have time and time again reminded the public that this abundance in liquidity and ultra low interest rate environment will come to an end sooner or later. As the Financial Secretary said in his recent Budget Speech, we will remain vigilant against the possible risk of a property bubble. We are determined to maintain the stable and healthy development of the property market and will continue to monitor closely the market situation.

Contrasting monetary policies between the East and the West

In summary, the global economic landscape looks something like this.

In Asia, we are concerned about too much liquidity; in the West, they worry about a lack of liquidity. We want to cool our property market; they want to support their property prices. Over here, funds are flooding in; over there, deleveraging continues.

Because of the vastly different economic situation, it is not surprising that monetary policies called for are also very different.

Our challenge is to curb inflation and avoid a bubble in our property market. Our policies are focused on tightening and controlling liquidity. Mainland China, Korea and Taiwan have all raised interest rates three times in the current tightening cycle. The Mainland has increased the banks' deposit reserve requirement eight times since beginning 2010.

The Governments in the West by contrast are pumping liquidity into the markets hoping that to re-inflate their sluggish economies. Interest rates over there are expected to stay low in the near future. Banks are encouraged to extend credit.

Chinese economy post-financial crisis

Today, it is impossible to discuss post-financial crisis growth of the emerging markets without mentioning China.

When the financial crisis took the global economy by storm in the second half of 2008, the Mainland authorities responded decisively with a RMB 4 trillion fiscal stimulus package (16% of GDP). As a result, Mainland China was the first among the major economies to recover from the global financial crisis.

Despite the strong performance of China, the experience from the financial crisis tells us that China has to change its export-led growth model to a more sustainable economic model. China has demonstrated a strong determination to do just that in the 12th Five-Year Plan the national blueprint for social and economic development.

China is implementing policies on all fronts to boost its domestic consumption. Its investment in education and infrastructure will have the effect of bridging the income gap.

The ultimate goal for China is to find a formula for sustainable and stable growth that would lead to improving the quality of life of China's nationals.

Hong Kong's role for China

Where does Hong Kong fit into all this?

Well, for a long time, Hong Kong - with our prime location and international connectivity - has served as a gateway for businesses, into and out of Mainland China.

But Hong Kong also serves as a gateway in another dimension. Hong Kong has long been an important testing ground for new ideas in China's economic reform. The success of which is enshrined in China's new found status as the second largest economy in the world.

Hong Kong has lent a hand in getting China where it is today. You may wonder, what more can Hong Kong do?

The answer lies in Hong Kong's fundamental strengths.

First and foremost, Hong Kong is China's most international financial centre. We enjoy the best of both worlds under the "One Country, Two Systems" policy. Hong Kong has its own legal and financial infrastructure whilst being part of China. We have a rich pool of professional talent. We facilitate a free flow of capital and information.

Secondly, Hong Kong's regulatory regime has strong international acceptance and our regulators have been recognised worldwide for their professionalism, consistency and transparency. Throughout the financial crisis our banks have been well capitalised and prudent in their lending practices. None of our banks have required rescuing. Securities market regulation stood the test of wide swings in the market.

Thirdly, Hong Kong's solid track record in rolling out China's financial market initiatives.

Use Chinese companies' listing on the Hong Kong Stock Exchange as a case study. Back in the 1990s, China had no capital market and most companies were state-owned. Those mainland companies had no corporate governance structure nor did they comply with international accounting standards. Hong Kong saw the opportunity and actively lobbied for Chinese companies to be listed on our stock exchange.

The Central Government appreciates that the established market discipline in Hong Kong could bring about much needed international best practice standards in corporate governance, accounting, disclosure and management. Hong Kong listing also gives these companies attractive valuations and access to a deep international liquidity pool. We have the requisite professional knowledge in banking, legal, accounting to get the job done, and done well.

In 1993, we saw the first mainland state-owned enterprise listed on the Hong Kong Stock Exchange - that is the historic listing of Tsingtao Brewery.

There has been no stopping ever since the first H Shares listing in 1993. As of end-February 2011, 596 Mainland enterprises were listed in Hong Kong, raising about US\$384 billion.

For two years running, Hong Kong ranked number one in the world for IPO funds raised. In 2009, we raised US\$31 billion through IPOs and the figure is even higher for 2010 and will exceed US\$57 billion.

China's 12th Five-Year Plan

Hong Kong's growing importance to Mainland China is reaffirmed in the 12th Five-Year Plan. For the first time in history, there is a dedicated chapter on Hong Kong and Macau. This is a manifesto of Mainland China's intention to support Hong Kong's status as a global financial centre and to support Hong Kong in becoming the offshore RMB centre.

Since 2004, Hong Kong has been operating offshore RMB business and we have gradually built up the size of our RMB market. Apart from providing an efficient and reliable RMB clearing system and platform, Hong Kong is also offering the only offshore RMB bond market.

Reflecting the emergence of a new global economic order, economists all agree that Renminbi becoming an international currency, and perhaps even in the longer run, a reserve currency is just a matter of time.

Hong Kong will continue to expand and deepen its RMB offshore business and provide a testing ground for RMB's march towards internationalisation.

Conclusion

Ladies and gentlemen, as China proceeds with its financial market reform, Hong Kong will be there to contribute. As RMB gains its acceptance in international investment and trade, Hong Kong will be the offshore RMB banking centre. As China increases its investment overseas, which is necessary for China to achieve a balanced economic growth model, Hong Kong will serve as a hub for Chinese companies to manage their investments overseas.

I wish you a very successful forum in Hong Kong.

Thank you.

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