Speech

Speech by SFST at luncheon seminar in Jakarta, Indonesia (English only)

Tuesday, May 24, 2011

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, on the theme "Hong Kong and Shanghai: Internationalisation of RMB Markets", at the Hong Kong and Shanghai Joint Roadshow Luncheon Seminar in Jakarta, Indonesia today (May 24):

Distinguished guests, ladies and gentlemen,

Welcome to today's luncheon seminar, which is the first stop of a joint Hong Kong and Shanghai roadshow to Southeast Asia. It is my great pleasure to share with you the opportunities arising from the internationalisation of Renminbi (RMB), China's home currency, and the role of Hong Kong in this process. My co-host in this luncheon, Dr Fang, will share his experience from the Shanghai perspective.

The emerging markets, including ASEAN and China, have become the world's economic powerhouse. The average economic growth rate of Indonesia in the past decade was 5.1% while that of China was 10.3%, both being very enviable numbers. We all share confidence in our economic prospect and the new opportunities it offers. Let me also share with you what Hong Kong could offer as an international financial centre.

<u>Hong Kong as an international financial centre</u>

Hong Kong has a world-class business infrastructure. This includes a highly open and internationalised market, a regulatory regime aligned with major overseas markets, the rule of law, a rich pool of professional talent and robust infrastructure support, and the free flow of information and capital.

Our regulatory system is a key factor behind the high quality of our financial market. In Hong Kong, when designing regulation, we have been careful to strike a balance between the goal of having a quality market and maintaining a forward-looking, market-friendly approach.

Blessed with this infrastructure and flushed with opportunities arising from spectacular growth in China and the rest of Asia, Hong Kong has emerged as the largest offshore RMB business hub, a regional asset management centre and a global equity funding leader.

Trade settlement in RMB

China's initiative in internationalising the RMB before there is foreign exchange convertibility has no precedent in financial market history. But it turns out to be a successful attempt. Policy encouragement and market forces have worked together to attract RMB to flow offshore, which has naturally led to a host of RMB services being developed, including an offshore interbank market, bank lending, RMB bonds and equity products.

An offshore market creates the platform for market forces to build up demand for the RMB as a currency for settlement, funding and investment purposes. With strong support from the Chinese government, which is enshrined in the 12th Five-Year Plan, Hong Kong has taken a clear lead in developing an efficient and safe platform for RMB offshore business.

In July 2009, China launched the RMB trade settlement pilot scheme in five Chinese cities, which provides for the settlement of cross-border trade in China's home currency. The scheme was expanded in June 2010 to 20 cities and provinces. In January this year, the PBoC announced that RMB could be used to denominate overseas direct investments. Since then, there has been a phenomenonal growth in RMB trade settlement and investments.

Hong Kong as the largest offshore RMB business hub

RMB trade settlement has grown in leaps and bounds in less than one year, and Hong Kong has played a pivotal role in that process. In the first quarter of this year, about 7% of China's total trade has been denominated in RMB, up from only 2.5% last year. Of that RMB-settled trade, Hong Kong handles 86% even though Hong Kong's share of China trade is 20-30%. A significant portion of the trade settlement is related to trade between China and its overseas trading partners, like Indonesia and the rest of Southeast Asia. Thanks to promotional campaigns like this by the Hong Kong Government and numerous roadshows by commercial banks, Hong Kong's banking sector is the biggest conduit for the RMB financial leg of these trades.

Hong Kong now has the largest RMB liquidity pool outside the Mainland, thanks in part to the accumulation of trade receivables in RMB. RMB deposits amounted to RMB451.4 billion as of end March 2011, more than six times that of end March 2010. A freely traded CNH market has flourished in Hong Kong with daily forex turnover of between US$1 billion to US$1.5 billion.

With its large pool of liquidity, it is natural that Hong Kong has become the preferred hub for the issuance of RMB bonds. By the end of last month, there were 49 dim sum bond issues, with a total issuance of RMB92 billion. Issuers ranged from the Chinese Government, World Bank, ADB to multinational companies such as Caterpillar, McDonald's and Unilever. The room for this dim sum bond market to grow is tremendous, as Hong Kong plays host to direct investments into and from China. Hong Kong contributed more than 50% of China's foreign direct investment in 2009 and we are also the major destination for China's outward direct investment, accounting for 60% in 2009.

Hong Kong has played a central and strategic role in the full-fledged usage of RMB as an international currency - for settlement, funding and investment purposes.

As RMB takes on a greater role regionally and internationally, it is natural that major financial centres, like New York and London, or cities such as Jakarta will develop their own offshore RMB markets. Our banking sector would work with yours to ensure that Indonesian companies and issuers gain easy access to the pool of liquidity, commercial and investment services in Hong Kong.

Regional asset management centre

Hong Kong is an ideal platform to access the Asian markets. Our fund management businesses have been taken to new heights in recent years. The combined fund management business of Hong Kong amounted to US$1,091 billion as at end 2009, up 45% from 2008.

Hong Kong has a flourishing exchange-traded fund (ETF) market. The average annual growth in ETF turnover was 113% in the past five years. In 2010, our ETF market was ranked first in Asia Pacific with a turnover of US$78 billion. Hong Kong is the place where you can buy into the Greater China story. We have ETFs tracking the Mainland A-shares as well as Taiwan shares.

Under QDII, fund management companies, brokers and insurance companies approved by the Mainland authorities are allowed to invest their own funds or those of their clients in certain types of financial products offered in overseas markets, subject to a given investment quota. As of end 2010, a total of 88 domestic institutional investors had been approved for a combined quota of US$68.36 billion under the scheme. Hong Kong was the first and remains the largest destination for the scheme.

The QFII scheme opens up Mainland's A-share market, bonds and securities investment funds to overseas institutional investors. As of end 2010, a total of 97 foreign institutional investors had been approved for a combined quota of US$19.72 billion under the scheme. Hong Kong is the biggest user of the scheme.

Global equity funding leader

Hong Kong is the market where you can fund and earn payout from the China growth story. For years, Hong Kong has been serving as the premium capital raising platform for Mainland enterprises. As of end April 2010, China enterprises raised a total of US$396 billion with a market capitalisation of US$1.6 trillion, which is 57% of the total Hong Kong market.

Hong Kong is open to all investors, international and domestic, with no restrictions on capital flows. Apart from Mainland enterprises, companies from different markets and sectors have designated Hong Kong as their preferred fund-raising platform. According to Ernst & Young, Hong Kong has become "a hub for cross-border IPO activity". European, North American and Southeast Asian companies have all listed here.

In 2010, listed companies raised US$57.9 billion through IPOs in Hong Kong, an increase of 81% compared with the US$32 billion in 2009. Hong Kong has been the global equity funding leader since 2009.

China is the world's leading exporter as well as one of the largest consumer markets. Hong Kong knows the value of companies with a significant China stake. Listing in Hong Kong fetches attractive valuation and there is abundant liquidity in secondary trading. Recent example includes L'Occitane and more are in the pipeline.

China is the world's leading consumer and importer of resources, and Hong Kong is on its way to becoming the world's leading mineral financing centre. Last year, we successfully listed the first Russian enterprise, Rusal, and the first South American mineral company, Vale.

Hong Kong's successful experience in conducting mega IPOs testifies to our strong fund-raising capability, in particular our ability to attract international capital. The listing of AIA Group Limited illustrates the strength of our market. The IPO was US$17.8 billion - the biggest ever IPO in Hong Kong and one of the biggest ever IPOs in the world. Only Hong Kong's deep pool of capital can cater for a listing of this size.

Hong Kong and Shanghai co-operation

Shanghai is the biggest onshore RMB market and Hong Kong is the biggest offshore RMB market. With the gradual opening of the capital account, we believe there will be increasing interaction between the onshore and offshore pools of funds through intermediation between the two markets. We look forward to cooperating with Shanghai to propel the progress of RMB internationalisation forward.

Thank you.

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