Speech

Speech by SFST at an executive business luncheon in Prague hosted by the Hong Kong Economic and Trade Office, Berlin (English only)

Wednesday, June 8, 2011

The following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the executive business luncheon in Prague hosted by the Hong Kong Economic and Trade Office, Berlin on June 7 (Prague time):

Ladies and gentlemen, my first order of business is to thank our Economic and Trade Office and the Hong Kong Trade Development Council for organising today's lunch.

Prague

Prague is the first stop in my visit to Europe this week. When I was thinking of ways to describe this city, it surprised me that I would bring to mind very similar adjectives in describing Prague as I would when talking about Hong Kong, even though our cities seem a world apart. Prague is a city where East meets West, and where the past meets the present. Prague has a beautiful vibrant city centre that is surrounded by enchanting countryside. Those are also qualities that Hong Kong is known for.

Today, I hope to bring to our friends in Europe updates on the latest economic outlook in Asia, where China stands and how Hong Kong fits into the picture.

Economic outlook for Hong Kong

The financial crisis triggered by the US subprime mortgage problem was the single most challenging crisis to hit the world economy since the Great Depression in the 1930s. This once-in-a-century turmoil spread from the financial markets to the real economy, leading to a synchronised global recession. Being a small and open economy, Hong Kong was inevitably affected.

Hong Kong's economy plummeted in the latter half of 2008. Gross Domestic Product (GDP) growth fell from 7.2% in the first quarter to -2.6% in the fourth quarter of 2008.

It was questionable back then whether the global financial market would survive, let alone that any economy could bounce back quickly or strongly. Hong Kong's resilience surprised the world. Our economy has strengthened consistently and steadily for the past three years. Our GDP for 2010 as a whole was 7%. So far this year, Hong Kong's economic activities have continued to see sustained expansion. The consumer market remains buoyant. Exports of goods and total retail sales recorded strong growth in the first four months of 2011. With continuous improvement in the labour market, the latest unemployment rate stood at 3.5%. We anticipate strong economic growth figures for the first half of this year, and Gross Domestic Product (GDP) will grow by 5% to 6% for the whole of 2011.

Looking at these indicators, you could be forgiven for forgetting that a major investment bank collapsed less than three years ago and came close to dragging down our entire financial system.

Despite the promising numbers, this year is still challenging for Hong Kong's economy. Inflationary pressure is expected given our low unemployment rate, continuous expansion of the economy and rising salaries and market rentals. The soft US dollar, the rise in global food, oil and commodity prices, and Europe, the US and Japan sticking to a loose monetary policy will put more inflationary pressure on Hong Kong.

The second round of quantitative easing in the US has added fuel to our already buoyant property market. We have time and time again reminded the public that this abundance in liquidity and the ultra-low interest rate environment will come to an end sooner or later. We are determined to maintain the stable and healthy development of the property market and will continue to closely monitor the market situation.

Chinese economy post-financial crisis

Today, it is impossible to discuss post-financial crisis growth in the world economy without mentioning China.

When the financial crisis threatened the global economy in the second half of 2008, the Mainland authorities responded decisively with an RMB 4 trillion fiscal stimulus package (representing 16% of GDP). As a result, Mainland China was the first among the major economies to climb out from the shadow of the global financial crisis. China is now the second largest economy in the world.

Despite China's strong recovery, the experience from the financial crisis tells us that China must 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 announced earlier this year. The Five-Year Plan is China's 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 the Chinese people. China's policymakers are not pretending that this could be achieved quickly or easily. But they know that changes in this direction are absolutely necessary if China is to sustain its growth pattern.

Hong Kong's strengths

Where does Hong Kong fit into the grand scheme of China's development? How can Hong Kong add the greatest value? First we must look to the past to identify our strengths by examining the historical role we have played in the development of the Chinese financial market.

Back in the days when Hong Kong was still a fishing village, our prime location, deep harbour and international connectivity allowed us to serve as a gateway for businesses, including European businesses, into and out of Mainland China.

Since China's opening, Hong Kong has served as a gateway in another dimension. It has become an important testing ground for new ideas in China's economic reform.

Why has China designated Hong Kong to execute its financial reforms? 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 while being part of China.

Our regulatory regime is respected worldwide for being consistent and transparent and, most importantly, it is proven to work.

During the recent global financial crisis, there was no major disruption to our markets. Our banking system remained sound and resilient. Our regulatory regime once again served us well. While other financial markets are contemplating major reforms in their regulation, there are no calls for a major overhaul of our regulatory structure. Many of the financial reforms contemplated in Western markets are warranted, but we should bear in mind that in the long term the proposals could restrain capital flows and slow down the pace of financial innovation.

Hong Kong's well-designed infrastructure has allowed it to capture opportunities in the past two decades by filling a gap in China's market opening process.

Back in the 1990s, when China had no capital market and most companies were state-owned, it was Hong Kong that brought to Mainland companies much-needed international best practice standards in corporate governance, accounting, disclosure and management. Hong Kong listing has also given them attractive valuations and access to a deep international liquidity pool, and we have professionals who have advised along the way.

In 1993, our efforts culminated in the first listing of a mainland state-owned enterprise, Tsingtao Brewery, on the Hong Kong Stock Exchange.

China's state-owned banks were previously considered inefficient in operation and offered a low rate of return for shareholders. Hong Kong played an important role in their reform. All four state-owned banks were successfully listed on Hong Kong's stock exchange in recent years. All the IPOs received a good response from the market and the banks gained reputations for their corporate governance and regulatory standards.

After two decades of hard work, by the end of April 2011 more than 600 Mainland enterprises had listed in Hong Kong, raising about US$400 billion.

Another significant development that Hong Kong has taken the lead in is the internationalisation of the Mainland currency, the Renminbi. As China's premier city for global finance, Hong Kong has an important role to play in this liberalisation process.

We all recognise that the internationalisation of the Renminbi is part of the new financial order for this region. It will provide a new impetus for the growth of China's financial market. Connectivity with trading partners, investors and financial institutions overseas will increase the demand for international financial services in China and access to the Chinese capital market.

The steps taken so far by the Central Government are part of the strategy in expanding the use of the Renminbi in international trade settlement, and the gradual opening up of China's capital account. China's reform in this area is bold in its vision, but cautious in its implementation. Hong Kong has proven to be the perfect place for introducing these reforms.

China's 12th Five-Year Plan

Hong Kong's importance to the Central Government has been recognised as recently as in the 12th Five-Year Plan. For the first time ever, there is a dedicated chapter on Hong Kong and Macau. Recognition of Hong Kong's special contribution to Mainland China does not come clearer than this.

The 12th Five-Year Plan explicitly sets out the Mainland Government's intention to develop Hong Kong into an international financing, asset management and offshore Renminbi business centre.

Conclusion

Ladies and gentlemen, as China proceeds with its financial market reform, Hong Kong will be there to contribute. As the Renminbi gains acceptance in international investment and trade, Hong Kong will be the offshore Renminbi 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.

Ends