

Speech

Speech by SFST at the International Research Conference (English only)

Monday, June 13, 2011

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the International Research Conference co-organised by the Chatham House and the Bauhinia Foundation Research Centre today (June 13):

Distinguished guests, ladies and gentlemen,

It is a pleasure to be invited to speak at a workshop co-organised by the UK's Chatham House and Hong Kong's Bauhinia.

A shift in the financial centre of gravity to the East

It has been three years now since the eruption of the financial crisis. One cannot deny that growth in Asia, particularly in China, since the financial crisis has been phenomenal. In 2010, China for the first time assumed second place in the ranking of the world's largest economies. It is now the single biggest contributor to the world's economic expansion, creating nearly one-fifth of the world's newly generated economic activities. The surge of economic activities in this region lies in stark contrast to the struggle among advanced economies in the West to recover.

The strong economic performance of China throughout the crisis and its leadership role in reviving global demand have challenged the existing pecking order of economic influences around the world. The shift in the centre of economic gravity from the West to the East has been set in motion. The internationalisation of the Renminbi will only lend momentum to this movement.

Hong Kong's current economic situation and the challenges ahead

Let's look at Hong Kong's post-financial crisis road to recovery. 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.

No one could imagine back then that any economy stood a chance of bouncing back quickly or strongly from the gloom. Hong Kong's resilience surprised the world.

Our economy has strengthened consistently and steadily for the past three years. Our GDP growth for 2010 as a whole was 7.0%. 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. We anticipate strong economic growth figures for the first half of this year, and GDP will grow by 5% to 6% for the whole of 2011.

However, Hong Kong is not without its fair share of challenges. The strength of our economy is also the source of our challenges. We are enjoying a low unemployment rate, continuous expansion of the economy and rising salaries and market rentals, but they all put pressure on inflation. The second round of quantitative easing by the US has fuelled our already buoyant property market. The rising rents and property prices are also a result of the development of our financial market in the past two years. The financial services industry is a major pillar of our economy, contributing to around 17% of our GDP. It is important for us to pay attention to the strategic and competitiveness issues of our financial market.

Hong Kong's strengths

How can Hong Kong realise its potential amid the changes going on in the world? In particular, how can we capture opportunities arising from China's economy? Our strategy should be guided by our own strengths. Hong Kong's history of participation in the development of the Chinese financial market should shed some light on where our strengths lie.

Historically Hong Kong's prime location and international connectivity have allowed us to serve as a gateway into and out of Mainland China for businesses worldwide.

But Hong Kong also serves as a gateway in another dimension. It has been an important testing ground for new ideas in China's economic reform.

The reason Hong Kong was picked to serve the financial needs of China in its market opening process is simple: 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. We facilitate a free flow of financial and human capital in our market.

Our regulators have been recognised worldwide for their professionalism, consistency and transparency. Certainty and predictability, the treasured cornerstones of all financial transactions and capital markets, remain solidly in place.

Possessing the strengths I have mentioned, Hong Kong has for years served as the premium capital-raising platform for Mainland China. It was Hong Kong that took the first state-owned Mainland enterprise public - Tsingtao Brewery in 1993. As of the end of April 2010, China enterprises had raised a total of HK\$400 billion with a market capitalisation of US\$1.6 trillion, which is 57% of the total Hong Kong market.

Apart from Mainland companies, enterprises from different markets, including Europe, North America and Southeast Asia, and companies in diversified sectors such as the mining and consumer sectors have designated Hong Kong as their preferred fundraising platform.

Hong Kong's successful experience in conducting many mega-IPOs illustrates our ability to attract international capital. We have a deep pool of liquidity because investors come to Hong Kong to gain access to the Asian markets as well as buy into the Greater China story.

For these reasons, our fund management businesses have blossomed in recent years. The combined fund management business of Hong Kong amounted to more than US\$1 trillion as at end of 2009, up 45% from 2008. Our ETF turnover has enjoyed an average annual growth of 113% in the past five years.

The QDII and QFII schemes, which facilitate the traffic of Chinese money being invested overseas and overseas money being invested in China, have made Hong Kong an even more important asset management hub. Hong Kong remains the first and largest user for these schemes.

Another significant development that Hong Kong is fortunate to captain 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.

Building on Hong Kong's advantages

How do we address competition? I believe the China story we have seen will continue with significance and relevance. Hong Kong is and still will be, for some time to come, a testing ground for new ideas in financial reforms and innovations for China. Going back to the remarks I made earlier, some people have said Hong Kong has been successful because China has given us business. I don't think that is true. Hong Kong has worked very hard to get business and we have to work very hard to keep ourselves relevant. Hong Kong has proven to be the best place for testing new ideas for China's enterprises. China's story is the biggest story in our generation. In continually and successfully intermediating between the financial needs of China and those of the rest of the world, Hong Kong is well positioned to further develop its financial market.

Regarding the direction of our financial market development into a global platform, the fundraising market will continue to grow. We should never be complacent, however. Our stock market is successful in a way because we have had a lot of Chinese listings in the past. We worked very well together with the Chinese regulators. A lot of the quality issues and transparency issues could be addressed within our regulations. And Hong Kong has a very good understanding of the Chinese firms; our professionals in Hong Kong have a very good "inside" knowledge about Chinese companies. That gives Hong Kong listing a certain quality benchmark. We should continue to safeguard and uphold that benchmark because at the end of the day, the strength of our market is very much determined by its quality. It does not, however, mean that we should say no to innovations. Upholding quality does not mean blocking innovation. We should always try to be a market facilitator. In this regard, I remember that the Bauhinia Foundation Research Centre did a very good study a few years ago on the expansion of Hong Kong's listing platform. A lot of the findings are still valid today. In fact, the regulators and the government have been working together to try to make our platform more accessible and facilitating. It is very important for us to maintain the balance in upholding quality on one hand and pursuing market facilitation on the other.

On innovations, Hong Kong should not try to do everything. I do not think Hong Kong can do everything, nor can we be a market for everybody. We have to focus on our fundamental strengths. Sometimes when we look at the regional competition, we ask, "Where does Hong Kong stand?" We have a big China story but that does not mean Hong Kong should only rely on the China story. At the same time, we should not look at every new market, trying to fill all the holes. For example, I do not think Hong Kong has an advantage over Singapore in terms of working with Indonesia or other markets that are in Singapore's nearby regions. And when it comes to Hong Kong and Shanghai, there are a lot of things that Shanghai is doing that Hong Kong might not be very good at. We should have some confidence believing in Hong Kong's strengths and build our financial market based on that. Looking at international competition, some people have asked me how I see Hong Kong in the future. Would Hong Kong be like New York or London? It is really hard to draw an analogy. What is Hong Kong going to be? Hong Kong is an international financial centre for China and also a capital market for the rest of the world. So how and where should we put Hong Kong in the global picture? Hong Kong may be like London in some ways because of the asset management industry and the listing business. We are clearly not like Geneva, with Geneva specialising in private banking and so on. Hong Kong does not look like Frankfurt in terms of its derivatives platform. It is very difficult to try to be in every market. So I think we should resist the temptation in our market development to try to be the one market for everybody. We should look into where our strengths are and where we can keep going, and guard against complacency, uphold quality and keep the market serving the needs of our customers.

Conclusion

Each country, each city and each global financial centre has its own strengths that no other place can replicate. Hong Kong is blessed with well-designed infrastructure and is flush with opportunities arising from spectacular growth in China. We have applied our strengths to the opportunities that surfaced in the past decade, and have emerged as the largest offshore Renminbi business hub, a regional asset management centre and a global equity funding leader. This strategy has worked well for us in the past and we intend to continue to strengthen the financial development of China in the coming decade by applying our unique strengths.

There are lots of potentially interesting topics for us to discuss in terms of building Hong Kong's financial market. I would like to thank again the Bauhinia Foundation Research Centre and the Chatham House for your good work. I wish you all success in concluding your project.

Thank you.

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