

## **Speech**

### **Speech by SFST at the FinMan/City University Forum (English only)**

Tuesday, November 1, 2011

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Advisory Committee on Human Resources Development in the Financial Services Sector (FinMan Committee)/City University Forum "Increasing Economic Integration between Hong Kong and Mainland China: Opportunities and Challenges for Hong Kong Finance Professionals" today (November 1):

Professor Lam, Mr Kwan, Professor Wei, FinMan members, distinguished guests, fellow students, ladies and gentlemen,

It gives me great pleasure to join you today at the Forum. I must first thank the City University of Hong Kong and the FinMan Committee for staging this event.

Today I am going to talk about human resources issues in Hong Kong's financial industry, and the opportunities that are available to, and within, Hong Kong's financial sector.

Before I go on to talk about the role of finance in our economic development, I want to address two questions about the financial industry. First, how should we regulate this industry in the wake of the global financial crisis? And second, a question which has a direct bearing on Hong Kong: are we too dependent on the financial sector, at the expense of other sectors?

Poor financial sector regulation in many Western countries led to the 2008 Global Financial Crisis. The crisis caused a recession that was so deep that it has precipitated a Euro sovereign debt crisis, making another round of bank bailouts to save the European banks inevitable. The global financial industry needs to be better regulated, but we must accord our priorities carefully. Market liberalisation went too far in the Western markets before the crisis. But we must make sure that we do not overreact and any new regulations must be workable. We must recognise that a strong and healthy financial sector is a key determinant to economic growth.

The immediate problem facing the world today is a lack of demand in the Western markets. Economic uncertainties and risk aversion are causing banks there to hoard liquidity instead of lending to private industry as they would do in the normal course of their business. What is stifling economic growth today is not that banks are taking too much risk, but rather that they are taking too little.

Restoring the health of the financial industry in the West is a challenging task, however it is also a prerequisite to economic growth. Flooding the financial system with liquidity, or bailing out banks saddled with downgraded sovereign debt, will not alone restore the health of the financial system. What is required is a structural fix in these economies, the adoption of pro-growth fiscal policies and restoration of public trust in sovereign debt.

I raise these issues not only because they are affecting the future shape of our industry, but also because they concern all of you here, especially those considering a career in the financial sector. What does the future of the industry hold for you and what kind of financial sector career should you pursue?

The Great Recession that began three years ago is causing a continuing debate over the proper roles of the market, financial regulation and globalisation. Much of the public anger, as symbolised by the Occupy Wall Street Movement, is directed towards the financial sector.

We certainly understand why there is such public discontent in many Western countries. There is a long list of contributing factors - anger at bankers, anger at governments for cutting public spending, deep recession, unemployment particularly among the youth, income inequality, and so on. The economic gloom is not likely to be over any time soon, as political paralysis prevents many Western governments from taking decisive action. It is a safe bet that this discontentment will continue to build, and I am concerned about its influence on public discussion of economic policies. Political dialogue in many Western countries is already becoming more and more protectionist in tone. We should make sure that voices vigorously defending the free market continue to be heard, as economic development can provide opportunities for most people.

Turning to Hong Kong, our home, the financial industry is an important pillar of our economy. Its importance goes beyond numbers and figures about employment or GDP contribution. In my view, the financial industry plays a strategic role in Hong Kong's economic future. It has the potential to raise the overall competitiveness of our economy. It is a big contributor to the economic integration between Hong Kong and the Mainland, which will in turn provide economic opportunities for everyone in Hong Kong, whether he or she works in the financial sector or not.

### Overview of Hong Kong's Economic Landscape

Hong Kong is now at a very interesting and exciting juncture in its development.

Whilst Europe and North America's economies are paralysed by their sovereign debt crises, the Asian economy, led by China, is moving from strength to strength. The centre of gravity of global economic activity has thus shifted from the West to the East.

Hong Kong is benefiting from this shift and has an increasingly important role to play in our interconnected world.

Why do investors and financial institutions alike believe in Hong Kong?

Well, we have always been widely recognised as a global financial centre because we possess a highly open and internationalised market, a regulatory regime aligned with major overseas markets, the rule of law supported by independent judiciary, a low and simple tax regime and a free flow of information and capital.

### China Opportunities

China has added weight to this shift from West to East. China is now the world's second largest economy. As the Mainland opens up to reform and liberalises its markets, Hong Kong is the ideal testing ground for financial innovation, such as the development of offshore RMB business in Hong Kong.

As at the end of September 2011, the outstanding RMB deposits in Hong Kong totalled around RMB622.2 billion. At the same time there were 95 RMB bond issues in Hong Kong with a total issuance size exceeding RMB 159 billion. This clearly indicates the deepening of the offshore RMB market in Hong Kong.

You may be familiar with China's 12th Five-Year Plan (the "Plan") - our nation's economic blueprint for the period up to 2015. The Plan gives full support to the development of Hong Kong as China's global financial centre.

The Plan also emphasises the Central Authorities' support in developing Hong Kong as an offshore RMB centre, and as an international fund management centre.

The Vice-Premier of the State Council, Mr Li Keqiang, announced this summer a series of measures to further support the economic and social development of Hong Kong.

They cover a number of aspects, including further expansion of the RMB trade settlement scheme, support for the use of RMB for foreign direct investment in the Mainland, the introduction of the RMB Qualified Foreign Institutional Investors scheme for investing in the Mainland's securities markets, a pilot arrangement for foreign banks to increase capital in their Mainland subsidiaries using RMB, and the expansion of issuance of RMB bonds in Hong Kong by Mainland entities.

Hong Kong has for decades served as a gateway to China. Our importance has not diminished because of the development of the Chinese economy. Hong Kong's new role in the offshore RMB business shows once again how Hong Kong can contribute to our nation's development. As China's industries become more integrated with the global economy, the integration of its financial sector with the global financial system will take on a strategic role, and this is where Hong Kong can help. And this is why Hong Kong's financial industry is a strategic industry for not just Hong Kong's development, but also a catalyst for expanding the economic ties between Hong Kong and the Mainland.

### Emerging markets

"RMB" has definitely created a stir post financial crisis. Another buzz term which would not have escaped you is "emerging markets". Investors are showing a new level of interest in these markets, particularly in south-east Asia and the BRIC countries of Brazil, Russia, India and China.

This October's edition of the Banker magazine released its Global Asset Management Survey showing an almost universal recognition of Hong Kong as the financial centre with the best prospects. In particular, Hong Kong is seen as the "Most attractive financial centre for managing emerging market investments" as well as the "Most attractive financial centre for relocating asset management operations".

### Who works in our financial industry?

Let's talk about the success of our financial services industry. Two of the questions which naturally pop up are: Who works in our financial industry? And what kind of human resources do we want to attract and train for our financial industry?

My questions may conjure images of investment bankers working long hours and earning fat salaries. The truth is that the financial industry is similar to any knowledge intensive service industry. There are currently over 220,000 people in Hong Kong working in the financial industry in around 10,000 companies. The financial industry employs about 6.2 per cent of the work force and contributes more than 15 per cent of our GDP.

The financial industry employs a large number of workers across all education and skill levels. Take away its mystique and the financial industry is like any other service industry. The factors that contribute to success in the financial industry - professional knowledge, service quality, information technology, customer orientation - are the same factors that contribute to success in all service industries.

Although higher skilled workers make up the majority of job positions in the financial industry, the industry can only function with the support of many administrators and clerical staff. In fact, one in four workers in the sector is a clerical worker. One in three workers in the finance sector has only upper secondary school education, somewhat in line with the overall economy.

Let me dispel one of the big myths about the financial industry once and for all - it is not just for high paid investment bankers. It is a key strategic component of our modern service industry, and it needs talents from a variety of backgrounds and education levels.

## Entry and Prospects in the Financial Industry

Now, let's turn to what students may be most interested in - entry requirements and prospects in the financial industry. The financial industry does not discriminate when it comes to recruitment. What I mean is that regardless of your academic background, or the fact that you specialise in a non-finance subject, you may still land a job in this industry. Finance or economics degrees are not pre-requisites. What employers are looking for are analytic skills, presentation skills, client management skills and bucketloads of professional integrity.

The door is wide open for new recruits from different disciplines. Yet competition for jobs in the financial industry has always been fierce, and the work can be exciting and rewarding if you find a job that matches your interests.

Don't believe that you can take a career in the financial industry for granted. More often it is not a job for life. People in this industry need to keep abreast of the latest developments and trends. The industry is consistently evolving, the challenges are never-ending. Today's product knowledge and innovation may be redundant in tomorrow's market.

## Conclusion

But I have no doubt there is a great future for all of you in our financial industry. Despite the economic uncertainties, and the changing regulatory landscape, Hong Kong's financial industry is set to take off in a new phase of growth as we continue to meet the needs of Mainland China.

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