

Speech

Speech by SFST at "Hong Kong: China's Global Financial Centre" New York Conference (English only)

Thursday, March 15, 2012

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at "Hong Kong: China's Global Financial Centre" New York Conference today (March 15, New York time):

Distinguished guests, ladies and gentlemen,

Hong Kong and New York

Good morning. I am delighted to join you all this morning. Thank you for coming.

New York and Hong Kong are on the exact opposite sides of the globe. Logic would tell you that people from these two places look and behave very differently.

On the contrary, both cities are just as crowded, we have equally cosmopolitan populations and we talk at the same pace and walk at the same speed!

Everybody knows we are financial centres, but that is not all. We are also media hubs for our regions. Journalists are drawn to Hong Kong and New York by our cities' free flow of information and unfettered media. Foreign media outlets, including international newspapers and television stations, have chosen our cities as their regional base.

We have also enjoyed similar career paths. We earned our first bucket of gold from manufacturing, then we focused on our ports business, and at the turn of the past century, we both saw the value in providing professional services. More recently we have both been stretched by the forces of globalisation and have taken the role of connecting our respective regions to the rest of the world.

What does our constant evolution tell you? Both New York and Hong Kong are nimble and not afraid of change. We are visionaries who possess the will and ability to transform our cities to capture tomorrow's opportunities.

Hong Kong Post-Handover

Hong Kong's journey in the past two decades is material for a good drama. In the 1990s, sceptics worried that Hong Kong's handover would ruin its future. The people of our city knew better. We charged ahead and carved out opportunities unavailable prior to becoming part of China.

Fifteen years on, we have proven those who doubted our prospects very wrong.

Hong Kong's economy expanded an average of 4.5 per cent per year in the past 10 years. Our average GDP stood at a historical high of US\$34,400 in 2011, a cumulative 27 per cent increase since 1997. Our unemployment rate stands currently at 3.2 per cent. Hong Kong has persistently maintained its top ranking as the world's freest economy by the Fraser and Cato institutes and the Heritage Foundation since 1970.

Moreover, Hong Kong was ranked the world's most competitive economy for the first time by the International Institute for Management Development in 2011, side by side with the US and up two places from the 1997 ranking. Hong Kong also took the top spot in the World Economic Forum's Financial Development Report 2011, the first time ever for an Asian financial centre to receive such an honour.

Our government Budget has been in good surplus for eight years running. Under these circumstances, we are able to run a highly modern city supported by state-of-the-art infrastructure.

Hong Kong's Financial Services

Hong Kong's financial services industry is an important part of our economy, contributing around 15 per cent to our GDP in 2010.

Every financial centre has its strengths. You may wonder what makes Hong Kong so unique and propelled it from just an ordinary financial centre into a global financial centre.

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 unprecedented "One Country, Two Systems" policy. Our sharpest competitive edge, which no other city has is that we have our own distinct legal and financial infrastructure while being part of China. We also have a great team of lawyers, accountants, bankers and other professionals who are well acquainted with international regulations and practices to support our financial services.

Secondly, Hong Kong's financial system and regulatory regime have passed with flying colours during the recent financial crisis. Our banks remained well capitalised and prudent in their lending practices. None of our banks required rescuing. Securities market regulation stood the test of wide swings in the turbulent market.

Many Mainland companies have benefited from these strengths, particularly Hong Kong's international best practice standards in corporate governance, accounting, disclosure and management.

Hong Kong listed its first Mainland state-owned enterprise in 1993 - that was the historic listing of Tsingtao Brewery back in the days when China had no capital market. Hong Kong listing gives Mainland companies attractive valuations and access to a deep international liquidity pool.

We kicked off this century by reforming China's state-owned banks which were previously considered inefficient in operation and offered low rate of return for shareholders. All four state-owned banks have been successfully listed on Hong Kong's stock exchange. All the IPOs received a good response from the market and the banks gained reputation for their corporate governance and regulatory standards.

As at the end of February this year, 645 Mainland enterprises were listed in Hong Kong, raising a total of US\$412 billion since 1993 (US\$29 billion in 2011).

For three years running, the Hong Kong Stock Exchange ranked number one in the world for IPO funds raised. From 2009 to 2011, companies raised aggregate IPO funds of US\$123 billion on our stock exchange. Let me put that into perspective: that figure exceeds the IPO funds raised at the New York Stock Exchange and the London Stock Exchange put together over the same period.

International Listing

Hong Kong - with its prime location and international connectivity - has long been serving as a gateway for businesses into and out of Mainland China.

This is our niche be it in the business of trading or financial services. Many overseas companies, particularly those with a Chinese connection, find it attractive to list in Hong Kong because of our unique time zone and valuation advantages and especially because of our connection to the Mainland.

Capital is not all you get from a Hong Kong listing. We throw in an unparalleled opportunity for brand building and secure an important presence in Asia and China. We have what other markets may have - international institutional investors - but we also have what other markets may not have: a growing number of both institutional and retail investors from Greater China and the rest of Asia.

Since 2009, many foreign companies have used Hong Kong's platform as a springboard to connect to China and the rest of Asia. In 2009, Schramm AG became the first German company to list on our exchange. In 2010, L'Occitane International S.A. was the first French company, Vale S.A. the first Brazilian company and RUSAL the first Russian company. In 2011 we listed the Japanese company SBI Holdings, Samsonite from the US and Prada S.p.A. from Italy. The list goes on.

Internationalisation of the RMB

As China gains importance in the ranking of the world's economy, a significant development taking place in parallel is the internationalisation of the Mainland currency, the Renminbi (RMB).

The internationalisation of the RMB is not something that can happen overnight. China is not taking a big bang approach, but rather, doing it slowly, meticulously and cautiously. For the time being, China's capital account remains closed. China plans to internationalise from the outside in - by encouraging clearing and settlement of trades in an offshore centre.

As China's premier city for global finance and a tried and trusted testing ground for new ideas throughout China's economic reform, Hong Kong is the natural choice for piloting the liberalisation of the RMB.

The three key areas of offshore RMB business that Hong Kong is developing are banking, capital-raising and trade settlement.

Since the launch of RMB banking in Hong Kong in 2004, RMB deposits in Hong Kong have grown to around RMB 576 billion as at the end of January 2012. That is about 1.6 times the amount a year earlier. By the end of January this year, some 134 authorised institutions were engaged in RMB business including deposits, currency exchange, remittances and cross-border trade settlement.

In 2007, Hong Kong became the first and only place to have an offshore RMB bond market. This represents a new funding channel for foreign firms to finance their China operations. Multinational American companies, including McDonald's and Caterpillar were among the first foreign firms to issue these "dim sum" bonds. In the last 12 months from February 2011 to January 2012, 94 issuances raised a total of RMB 111 billion.

Another development is RMB trade settlement. Since its launch, the scheme has been widened to allow firms around the world to settle trade with partners throughout the Mainland using RMB. Settling Mainland trade in RMB helps reduce exchange rate risks and costs.

Our RMB offshore platform is not just for the benefit and convenience of Hong Kong and China. It is designed to benefit everyone who wishes to embrace China's latest development miracle.

Conclusion

Ladies and gentlemen, Hong Kong is the best and easiest place to access the Mainland. We are deeply connected to the Mainland by trade and finance not to mention we have the same culture and share common goals. The opportunities for the global financial centre of a country of China's size, population and potential growth are vast.

Hong Kong may not have the longest history in global finance but we certainly have the most potential. Our open and nimble economy allows us to stay a step ahead of the pack in reacting and capturing new opportunities, like we have done time and time again.

I hope I have given you a picture of where we stand or more precisely, where we are moving towards. For anyone interested in pursuing Chinese or global opportunities please come to Hong Kong, a global financial centre where the China edge meets global connectivity.

Thank you.

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