Speech

SFST's speech at "Hong Kong as China's Global Financial Centre" Roadshow in Geneva

Tuesday, November 13, 2012

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the "Hong Kong as China's Global Financial Centre" Roadshow in Geneva today (November 13):

Ladies and gentlemen,

Good afternoon. Bonjour. I am delighted to see you all here. Thank you for coming.

Switzerland and Hong Kong are over 5,500 miles apart from each other. Normally, you would expect two places located so far apart to be very different. On the contrary, we share many similarities. We are both small, open and developed economies; we have similar levels of GDP with purchasing power parity per capita at about US$49,000, as evaluated by the World Bank in 2011; we both have a significant financial services sector contributing over 10 per cent to our respective GDPs; we both have an actual or de facto fixed exchange rate, only that the Hong Kong dollar has been pegged to the US dollar for almost three decades, while the Swiss Franc has followed the Euro since November last year. Hong Kong also shares a number of other similarities with Geneva. Some of these I am sure you already know. For example, we are both asset management centres. But you may not be aware that, just as Geneva is a "city of parks", we have a great number of country parks in Hong Kong as well.

Hong Kong now stands as a strong international financial centre. But this was not something that sceptics expected back in the 1990s. They worried that the change of sovereignty would ruin the city's future and impede its efficient free market economy. As we now celebrate the 15th anniversary of the establishment in 1997 of the Hong Kong Special Administrative Region, we have proven their concerns unnecessary. Over these years, with the full support of the Central People's Government and the concerted effort of the Hong Kong people, we have made the "One Country, Two Systems" model a shining success.

I can appreciate the past concerns or confusion over the "One Country, Two Systems" model, as it was indeed a new model with no precedent at all. Let me highlight some key features of it. First of all, under "One Country, Two Systems", Hong Kong has retained the common law system. The rule of law, upheld by an independent judiciary, continues to provide an efficient and secure environment for individuals and businesses.

Secondly, we have also kept our nearly tax-free customs territory. Thirdly, we continue to maintain a simple and transparent taxation system. Company profits tax is at 16.5 per cent and personal income tax is capped at 15 per cent, with no sales tax, no withholding tax on dividends and interest, no capital gains tax, no value-added tax and no estate duty.

These are our fundamental strengths that we are able to maintain under the part "Two Systems". At the same time, Hong Kong is part of China. While being a very international city, Hong Kong has close ties with the Mainland of China. We have the knowledge and connections to tap into the Chinese market, which is the second largest economy, the largest exporting economy and the second largest importer globally.

We have leveraged on our fundamental strengths and our China advantage to propel Hong Kong as the global financial centre of China. In addition to being the gateway between China and the rest of the world, we have also taken the role of a testing ground for China's financial market liberalisation. In particular, Hong Kong's development into an offshore Renminbi (RMB) business centre and an international asset management centre was hardwired into China's National 12th Five-Year Plan released in March 2011.

The offshore RMB market arose from the need for the Chinese currency to circulate more widely in international financial markets as China emerged as a heavyweight of the global economic arena. The internalisation approach was first focused on its current account through clearing and settlement of trades in an offshore centre and then moved on to quotas for portfolio investments into and out of China. This is where Hong Kong's special status as an offshore market and part of China comes in.

In 2004, Hong Kong became the world's first market to conduct offshore RMB business, first offering deposit-taking, currency exchange, remittances and debit and card services, and later expanding to loans, trade settlement and other currency hedging services in RMB.

In 2007, in light of the vast RMB deposit pool, Hong Kong was the first offshore market to develop a respective bond market, having attracted issuance from the Ministry of Finance of China, multilateral development banks, financial institutions and non-financial corporations both inside and outside China. To put that into perspective: as at the end of June 2012, there have been 171 RMB bond issues with a total issuance size of about RMB250 billion - a figure that makes this bond market larger than many local currency markets in Asia.

In July 2009, the RMB trade settlement pilot scheme was launched in Mainland China, first at five pilot cities, then in 20 provinces, and eventually across the whole country. In the second quarter of 2012, the cross-border RMB trade volume of China stood at RMB642 billion, or 11 per cent of the country's total merchandise trade. All in all, banking services, debt fundraising and trade settlement are the three pillars of the offshore RMB market of Hong Kong. We have made a lot of progress in the past few years and we expect RMB business in Hong Kong to continue to grow.

Moving on to the second mission, being an international asset management centre, our latest Securities and Futures Commission (SFC) survey showed that over 60 per cent of the total fund management business in Hong Kong was sourced overseas and over 50 per cent of the investment was mainly in Mainland China and Hong Kong. This demonstrates the international nature of our fund management business and our role as the gateway between the Mainland of China and the world. With the centre of economic gravity shifting, more and more foreign investors are attracted to Asian markets, in particular the Chinese markets. Hong Kong is best positioned to channel the flow.

For direct investment in the Mainland Chinese securities market, overseas banks, securities brokers and fund management companies can apply for Qualified Foreign Institutional Investors (QFII) quotas, for which the cap was raised by US$30 billion to US$80 billion in April this year. The Hong Kong market is the biggest user of this QFII quota. In addition, a new scheme, Renminbi Qualified Foreign Institutional Investors, was launched in 2011. Under this new scheme, 19 fixed income funds with a total net asset value of RMB19 billion, as well as four physical exchange-traded funds tracking the Mainland Chinese equities indices, have been made accessible to investors in Hong Kong.

The story doesn't just end here. China is not only a source of investment opportunities. It is also a source of investors. The economic growth of China has given rise to an expanding affluent community in the Mainland. The high net worth individuals seek to diversify their wealth across countries and asset classes. This means huge opportunities for the private banking sector in Hong Kong. Therefore, our regulators, the Hong Kong Monetary Authority and the SFC, have been working closely with the private banking industry to clarify and provide guidance on regulatory issues.

Ladies and gentlemen, I have given you a general picture of where Hong Kong stands and how it is going forward as China's global financial centre. I am sure my fellow speakers will share more at the panel discussion. And I welcome you all to come to Hong Kong to see first-hand all that we are discussing today.

Thank you.

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