

**Speech**  
**Speech by SFST at Hong Kong Management Association**  
**Annual Conference 2013 (English only)**

Tuesday, November 12, 2013

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, "Positioning Hong Kong in a rapidly changing competitive environment", at the Hong Kong Management Association Annual Conference 2013 this morning (November 12):

Dr (Dennis) Sun (Chairman of the Hong Kong Management Association), Mr (Jay) Walder (Chairman of the Conference Organising Committee), distinguished guests, ladies and gentlemen,

Good morning. It is a great pleasure for me to join you today at the Hong Kong Management Association's Annual Conference. I would like to take this opportunity to share with you my thoughts on Hong Kong's positioning in today's increasingly competitive environment. I will do so by touching on some of our strengths and weaknesses, along with the opportunities ahead and obstacles that threaten to pull us back.

As a small and open economy, Hong Kong's economy is intermingled with those of our trading partners and is very susceptible to external shocks. Speaking in the age of globalisation, this is perhaps more true now than ever before.

Ever since the bursting of the US housing bubble in 2008, Hong Kong has been exposed to the consequences of the three rounds of quantitative easing (QE) that followed. With the Hong Kong dollar pegged to the greenback, Hong Kong is even more exposed than many other economies. Ultra-low interest rates have lent support to skyrocketing asset prices across markets, building up the bubble risk for the world. More recently, partisan politics over the US budget led to the shutdown of the federal government and talk of US treasuries defaults. The exporting of US political risks is bad news, and the long-term effects are yet to be seen.

We are no experts in American politics. As policymakers, our goal is to mitigate the negative effects of external shocks on the Hong Kong economy, deploying policy tools that are open to us. The Special Stamp Duty, Buyer's Stamp Duty and the doubled ad valorem stamp duties are prime examples. Timely passage of the related legislative proposals by the Legislative Council will give the market a clear signal that

Hong Kong has the will and ability to respond to challenges arising from the external environment, including but not limited to the successive rounds of QE, the tapering and the budget crisis.

New developments closer to home in Asia are not to be neglected. As China's international financial centre, Hong Kong has been instrumental in the internationalisation of the Renminbi (RMB), developing into the premier offshore RMB centre in the process. The success story of the RMB development in Hong Kong illustrates our competitive strengths: a deep capital market, strong international connectivity, and close economic ties with the Mainland.

The year 2013 marks the beginning of the next phase. With clearing banks now appointed in Taipei and Singapore along with Renminbi Qualified Foreign Institutional Investor quotas granted to London and Singapore, Hong Kong's de facto monopoly on these businesses has come to an end. The launch of the Shanghai free trade zone is widely viewed as a new departure in China's opening up, likened by some to the birth of the Special Economic Zones more than 30 years ago.

There are voices in our community expressing worry over how these changes may affect Hong Kong's status as China's international financial centre. We should worry not about losing privileges, nor about losing our competitiveness. We should worry not about change, but about any future lack of the will and ability to benefit from changes.

Extensive use of the RMB outside Hong Kong and China is needed if the RMB is to be a true international currency. The open door policy in financial reforms will not stop in Hong Kong, but will reach other parts of the world. Economic reform and market liberalisation will continue on the Mainland, allowing market forces to work better to improve people's lives.

Our experience tells us that Hong Kong stands to gain each time China liberalises and opens up, and the launch of free trade zones should be no exception. Hong Kong's success was not founded on privileges and monopolies. On the contrary, Hong Kong is used to changing dynamics in its external environment, and we have always emerged stronger and better through the process of competition.

Instead of worrying about competition, we should welcome it. We should welcome the opportunity to renew our strength and prepare Hong Kong for our next phase of economic and social development.

Most importantly, we must treasure and protect our core areas of strengths. These include our open and free economy, independent judiciary, respect for diversity, low taxes and simple tax regime, and our pool of international talents. These traditional advantages we enjoy verge on being clichés, but they are indeed the foundation of our competitiveness. They allow Hong Kong to focus on the segments of the value chain with the highest value-added, enabling us to attract capital and talents from all over the world. Thanks to our respect for diversity and multiculturalism, professionals with distinct backgrounds are all able to call Hong Kong their home.

Nevertheless, in the face of the ever-intensifying competition, we cannot rest on our laurels. Located conveniently in the heart of Asia, Hong Kong is bestowed with a set of excellent institutions and no doubt enjoys a first-mover advantage. Yet the challenges we face should not be underestimated. Prolonged land shortages have resulted in sharp rises in rent and property prices. The competition for international school places risks discouraging foreign talent from coming to Hong Kong. Our air quality leaves much to be desired. More importantly, competition always brings challenges to existing business, and the best way to meet competition is to make sure that we remain efficient and flexible to meet new demands.

A lack of ability to innovate and develop new industries, said to be reflected in our alleged reliance on finance and real estate, is often cited as one of our key deficiencies. My view is that proliferation of a diversified set of industries is not in itself a measure of economic competitiveness. The structure of an economy often has roots in its natural comparative advantages, which are then refined through the process of competition. At the same time, the ability to innovate has time and again expressed itself through the development of new growth opportunities in existing core industries.

New growth opportunities are plenty. Hong Kong is well-placed to benefit from the continued shift of economic gravity to the East. According to the International Monetary Fund, developing Asia as a whole is expected to grow at an average annual rate of 6.6 per cent over the next five years. At the doorstep of the Mainland, Hong Kong also benefits from China's continued reforms and opening up. Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement signed in August includes 73 services liberalisation and trade and investment facilitation measures that further relax market access conditions for Hong Kong businesses in the Mainland. For example, qualified Hong Kong-funded financial institutions are

allowed to set up full-licensed joint venture securities companies in designated areas and provinces, and the shareholding percentage of Hong Kong securities and fund management companies in joint ventures set up in the Mainland is further increased to over 50 per cent. These measures will further expand the scope of business of the Hong Kong securities and futures industry in the Mainland.

The domestic demand of a rapidly growing middle class is being released as China continues to transform its growth model. As financial reform presses on, there is much room for Hong Kong to expand in its role as the premier offshore RMB centre, asset management centre and leading provider of professional services for Mainland businesses expanding overseas.

We can grab the opportunities only if Hong Kong remains the ideal location for businesses to operate and for top local and international talents to develop their careers. It is the goal of the Government to develop Hong Kong into the most liveable city supported by sustainable economic development. Specifically, we will continue to invest heavily in education to ensure that our next generation is equipped with the ability to innovate. We also undertake to provide sufficient land to support economic growth. Our trust and company regimes are also modernised to better serve today's needs.

Even though the external environment is expected to remain turbulent, I am confident that by riding on the sustained growth of the Mainland and the shift of economic gravity to Asia, Hong Kong will be able to overcome the challenges and continue to excel in our role as Asia's premier financial and commercial centre.

Thank you.

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