Speech

Speech by SFST at BDO Asia Pacific Corporate Finance Summit 2013 (English only)

Friday, November 29, 2013

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the BDO Asia Pacific Corporate Finance Summit 2013, "Markets and Finance - the Asian Impetus" today (November 29):

Mr Albert Au (Chairman of BDO Ltd), Mr Stephen Darley (Chief Executive Officer of Asia Pacific, BDO International), distinguished guests, ladies and gentlemen,

Good morning. It is a great pleasure for me to join you here today. I would like to take this opportunity to give you a brief overview on the external economic environment we face and Hong Kong's positioning going forward. Then, I will talk about how we can benefit from China's further opening up by challenging ourselves to do an even better job in connecting the world to China and China to the world.

As a small and open economy, Hong Kong is very susceptible to external shocks from our trading partners. As an international financial centre, we are also impacted by the developments in the global financial markets.

The quantitative easing (QE) programme that followed the bursting of the US housing bubble is no doubt one of the key factors that have been affecting us in the past five years. The talk of QE tapering in June sent shockwaves through the emerging markets, leading to massive capital outflows. The Indian Rupee fell to its lifetime low against the US dollar, and other emerging market currencies depreciated sharply against the greenback. I believe that the markets overreacted to a certain extent, but they have largely calmed down by now. While such overreaction is very much liquidity driven, it also reflects a general lack of confidence in the emerging markets that we should be aware of.

The impact of the QE programme on Hong Kong is no less hefty. The prolonged ultra-low interest rates set by the Federal Reserve Bank have resulted in skyrocketing asset prices in the local market and increased risks for our financial system. I believe that it is beneficial to the global financial system for QE tapering to begin sooner rather than later, as bubble risks will keep growing as long as the QE programme remains at its full strength.

As policymakers, our focus is on mitigating the adverse effects of these external shocks on the Hong Kong economy. In particular, we have introduced the Special Stamp Duty, Buyer's Stamp Duty and the doubled ad valorem stamp duties to address the overheated property market. I have urged the Legislative Council to pass the relevant legislative proposals as soon as possible after their deliberation. This will give the market a clear signal that we remain vigilant and have the will to take decisive measures in response to external challenges.

Further to these challenges, a development closer to home in Asia demands our attention too. You may be familiar with how Japan has embarked on a QE programme on a massive scale. The policy led to a heated market for initial public offerings earlier this year and price inflation, which had not been seen since 2008. This was, however, followed by a slowdown in Japan's economic growth in the third quarter, and the jury is still out on the long-term impact of Abenomics.

So, the theme of today's summit, "Markets and Finance - the Asian Impetus", is very timely indeed. Hong Kong's economy has become increasingly interconnected with not only the Mainland's economy, but also, more importantly, with the economies of the Asia-Pacific region.

The robust economic growth in Asia has been a key driver behind the growth of our markets. The Association of Southeast Asian Nations (ASEAN) as a whole is the second largest trading partner of Hong Kong, after the Mainland. Even though we have seen some political instability here and there, it is important to note that the region in the past few decades as a whole has never been as stable as it is now. In fact, the value of bilateral trade between Hong Kong and ASEAN grew strongly at an average annual rate of 10.1 per cent over the past 10 years. Some ASEAN countries, especially the Philippines and Indonesia, have experienced solid economic growth so far in 2013. Hong Kong is also a favoured destination for companies from ASEAN countries to set up overseas operations. As at June 2012, there were 53 regional headquarters, 128 regional offices and 297 local offices set up by companies with ASEAN origins in Hong Kong.

This brings us back to taking a fresh look at the opportunities arising from our nation's development. As a well-established international business and financial centre in its own right, Hong Kong contributes to Mainland China's economic reforms and opening up to the rest of the world. The decisions made recently at the Third Plenum of the Chinese Communist Party, which cover a wide range of topics including the role of markets, environmental protection, anti-corruption, fiscal affairs, land, the judiciary and state-owned enterprise reforms, are expected to give the reform initiative a new impetus. As a highly efficient market economy under the "One Country, Two Systems" framework, our economy can take full advantage of our deeper integration with the Mainland, and is expected to benefit from the further opening up of the Mainland to offshore investors. The demand for our professional services will grow. However, in order to take full advantage of the opportunities arising from China, we need to challenge ourselves in our role of connecting China to the world and the world to China.

Hong Kong's role in the birth of the offshore Renminbi (RMB) market is a prime example of how we are bringing the world to China. Since the launch of RMB banking in Hong Kong in 2004, we have become the world's largest offshore RMB business hub, with the world's largest offshore pool of RMB liquidity, which totalled RMB908 billion at the end of September. In the first three quarters of this year, Hong Kong banks helped settle cross-border trade worth more than RMB2.6 trillion, nearly the total amount settled last year. About 90 per cent of this is purely offshore, representing trades either between Hong Kong and overseas markets or among overseas markets via Hong Kong.

In fact, it is our connectivity with the rest of the world that will allow us to benefit as China's opens up further. As at the end of September, out of the 211 participants in our RMB settlement platform, 186 were subsidiaries of foreign and Mainland banking institutions. The number of correspondent banking accounts maintained by overseas banks with banks in Hong Kong has also increased, from 187 in 2010 to over 1,600 accounts at present.

We are proactive in forging closer relationships with overseas partners to assist and enable financial institutions and corporations around the world to make use of our RMB infrastructure. Last year, the Hong Kong Monetary Authority extended the operating hours of the RMB Real Time Gross Settlement system from 6.30pm to 11.30pm to provide European institutions with an extended window to settle payments. The third meeting of the private-sector-led London-Hong Kong RMB Forum to promote co-operation on development of international RMB business was held in September this year. The annual Australia-Hong Kong RMB Trade and Investment Dialogue was first held this April. In August, Hong Kong and Malaysia announced the launch of private-sector-led dialogues on RMB business, with the first meeting to be held in Kuala Lumpur later this year.

You may also be aware that the Financial Secretary has just returned from London and Paris, two of the largest financial centres in Europe, where he met with the government, central banks, the media and business leaders to discuss ways to collaborate to promote the RMB as an international currency.

Ladies and gentlemen, Hong Kong will also benefit from China's further opening up by assisting in the other direction, taking China to the world. The world has been coming to Hong Kong to seek opportunities to invest in China for many years. It is our goal to strike a balance between market facilitation and investor protection as we continue to attract high-quality Chinese companies to come to raise capital. In order to improve corporate governance and the quality of our markets, we have updated our Companies Ordinance and these new provisions will come into effect next year.

With economic gravity shifting to the East, more and more quality and competitive investment projects originate from China and the rest of Asia. Indeed, the combined fund management business in Hong Kong reached a record high of US$1.6 trillion as of the end of 2012, representing year-on-year growth of 39.3 per cent. Overseas investors contributed 64.6 per cent of the assets in the total fund management business excluding real estate investment trusts.

We aim to develop our asset management industry by attracting more investment funds to use Hong Kong as a base to explore these investment opportunities. We are considering legislative amendments to introduce the Open-ended Investment Company as a legal form to set up funds in Hong Kong. We have also modernised our laws governing trusts to meet the demands of today's private wealth and asset management industry.

The fund mutual recognition scheme we are working on is a prime example of how Hong Kong can connect China to the world and the world to China. We are working very closely with the Mainland authorities to study the implementation of mutual recognition and cross-border offering of funds between Hong Kong and the Mainland. This initiative, once implemented, will allow Chinese investors to gain exposure to the rest of the world, and the rest of the world will be able to invest in Chinese onshore funds via Hong Kong.

I encourage you all to grab these opportunities. We look forward to working closely with the regulators and the business community to ensure that Hong Kong continues to benefit from the Mainland's further opening up.

Thank you very much.

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