Speech

Speech by SFST at London Business School (English only) (with photos)

Thursday, May 14, 2015

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, on Hong Kong's role as China's global financial centre: Opportunities and Outlook, at a seminar organised by the London Business School in London yesterday (May 13, London time):

Ladies and gentlemen,

Good afternoon. It is a great pleasure to be back in London. As you may know, I was a finance professor and business school Dean before joining the Government. I also know London Business School quite well as there is so much collaboration between LBS with schools in Hong Kong.

As a finance academic, I had the experience in conducting research in the area of financial markets. As a business school Dean, my role was to build a business school with great research and teaching programmes, to give students a good education, prepare them for careers, and to provide continuous education opportunities to business executives to keep them fresh with new management thinking and practices.

Turning to my role as a government official, I have to develop the policy on market regulation and development, promote our financial industry, and to ensure we are competitive. I would say, the one common area of all my experiences is I recognise the importance of nurturing talent, and the importance of creating a rewarding environment for them to work in.

As LBS students you may be contemplating different career options, and the locations where you want to work and live. Even the world's economic growth remains sluggish, I remain optimistic that you are presented with great opportunities, including finance, technology, and beyond. It is not for me to tell you what the next booming industry is. But, as far as I know, more than half of LBS graduates landed at a job outside the UK last year.

But I will say this. Despite what has been said about banking and finance, there are still good and rewarding opportunities in the field, and Hong Kong should be a good place for you to work in.

No question there are reasons to be concerned about the economic outlook in the world. Chief among the uncertainties we face is no doubt the Fed's path toward rates normalisation. The US economic outlook is relatively encouraging. But thanks to the weather and strong dollar, real GDP rose at only 0.2% in Q1 of 2015, complicating policy outlook.

Meanwhile, recovery in the Eurozone remained slow. Flash headline CPI was 0% in April. The ECB had no choice but to enlarge its asset purchase programme to avert deflation risks. The policy divergence between the US and other major economies could rock the modest recovery we have.

In Asia, growth remained moderate, with China and India still expanding solidly. This year, China is lowering its growth target to 7%. This is part of a strategy to boost the role of consumption in the economy through opening and reform.

Against this background of slower economic growth, and challenging macro environment, the reform of China's financial market opens up exciting opportunities for business and investors. And Hong Kong is well situated to take advantage of these opportunities.

The Chinese Government laid out the reform roadmap at the Third Plenum in 2013. Under this plan, the Renminbi (RMB) capital account will be opened in an orderly and risk-managed manner. Exchange and interest rates will also be increasingly determined by market forces.

Hong Kong has been playing a key role in this process. The offshore RMB market was born here in 2003. The combined value of deposits and certificates of deposits in Hong Kong is about RMB 1.1 trillion at the end of March. Offshore RMB bonds, dubbed "dim sum" bonds, was first issued here in 2007. At the end of March, RMB 614 billion was raised through 498 "dim sum" issues.

The RMB is today the fifth most used payment currency in the world. Out of this some RMB 6.3 trillion, or some 95% of the Mainland's total RMB trade, were settled by Hong Kong banks.

We literally work around the clock to help RMB users settle their trades. Our RMB Real Time Gross Settlement system operates 20.5 hours a day to cover our European and American partners.

We are also pushing for the use of the RMB as an investment currency. Launched in 2011, the RMB Qualified Foreign Institutional Investors scheme opened the Mainland equity and bond markets to offshore RMB investors. At the end of January, we had 84 RQFII funds managing RMB 72 billion. Along with the "dim sum" bonds, these funds are opened to investors from all over the world.

Finally, there is the Shanghai-Hong Kong Stock Connect. This two-way arrangement opened the Mainland stock market like never before. Through Hong Kong, offshore RMB investors, in or outside Hong Kong, can invest directly in over 570 stocks listed in Shanghai. At the same time, Mainland investors can use their RMB funds to invest directly in over 280 shares listed in Hong Kong.

Pooling liquidity from Shanghai and Hong Kong, trading volume has picked up significantly recently. We are currently working on a similar link with Shenzhen where many fast growing smaller Chinese companies are listed.

The two developments I have talked about, the RMB internationalisation, and the linking up of the Shanghai and Hong Kong markets, are great examples of China's opening up. They are both bold and systematic. Bold in their vision of introducing financial reform through opening up to the world, and bold in the scale and magnitude of the changes. Systematic in the adoption of many risk management measures, and conducting these reforms through Hong Kong. Hong Kong has served as an exciting laboratory for testing new financial market initiatives for China.

No doubt China is a fast growing market that everyone seeks to enter. Less known, perhaps, is Chinese companies and individuals' appetite for investments offshore. Again, Hong Kong is uniquely positioned to serve this ever-growing need. We are working closely with the Mainland Chinese authorities on the mutual recognition and cross-border offering of fund products. Under this arrangement, qualified funds from Hong Kong would enjoy the status of "recognised Hong Kong funds" in the Mainland and vice versa. Once authorised using a streamlined process, these funds could be sold directly in the other's market.

Mutual recognition with China on fund offerings is part of our strategy of building Hong Kong into an asset management centre. We are also introducing the open-ended fund company as a fund vehicle to attract funds to set up here.

The private equity industry will benefit from profits tax exemption on transactions in private companies incorporated or registered outside Hong Kong. There is no better time to be an asset manager in Hong Kong.

As the use of RMB increases, there is a need to manage the related risks. Hong Kong is home to a liquid market for RMB options and cross-currency swaps, backed by the Hong Kong Interbank Offered Rate, or HIBOR fixing - the first offshore RMB interest-rate benchmark. To encourage companies to manage their finances here, we are also going to allow interest deductions under profits tax for corporate treasuries and cut profits tax for specified activities by half. The range of variety of insurance and derivative products available in the market also makes us the ideal base for multi-national and Mainland enterprises to manage their finances.

Our vision goes beyond being just China's offshore banking centre. Instead, we seek to play a strategic role as the fast growing China embraces the world. First advocated by the Chinese authorities in 2013, the "One Belt, One Road" vision, or "OBOR", is a development blueprint to more fully integrate the country into the world economy. "One belt" refers to the New Silk Road Economic Belt, which will link China with Europe through Central and Western Asia. "One road", on the other hand, refers to the 21st Century Maritime Silk Road, which will connect China with Southeast Asia, Africa and Europe.

These two corridors, spanning different regions in Asia, Europe and Africa, are roadmaps for further political, economic and social co-operation. The initiative will cover the arenas of policy, infrastructure, trade, capital and culture.

Many countries along the "OBOR" have great development potential.

Infrastructure investment is the backbone of the vision. These projects, however, are often very capital intensive. The Asian Infrastructure Investment Bank (AIIB) is set up to support these investments.

The UK is one of the prospective founding members of the AIIB. The Hong Kong Government has also indicated its intent to join and has been involved in the preparation work as part of the Chinese team.

Infrastructure projects call for huge capital commitments and long implementation and payback periods. The AIIB will need expertise in project financing, investment, financial management and foreign exchange management. Hong Kong's professionals and financial services industries are ready to support the operation of the AIIB.

At the same time, many of the activities along the "OBOR" will be conducted in RMB. As the premier offshore RMB centre, Hong Kong is ready to provide international investment, cross-border trade settlement, RMB bond issuance and asset and risk management services offshore in RMB. The opportunities are tremendous.

Deciding where to build a career is never straight forward. But sometimes the decisions are easier. As you can see, Hong Kong is the ideal base for expanding companies and aspiring professionals to benefit from Asia's growth. Combining global exposure and Mainland connectivity, Hong Kong is your ideal gateway to the tremendous opportunities that China's continuing reform offers. I invite you to join us in Hong Kong.

Thank you.

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