

Speech
Speech by SFST at Hong Kong Business Seminar Luncheon in Seoul
(English only) (with photo)

Tuesday, May 19, 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 for Korean Investors", at the Hong Kong Business Seminar Luncheon in Seoul, Korea, today (May 19):

Dr Kim (Jung-gwan), ladies and gentlemen,

Good afternoon.

It's been about one and a half years since my last official visit to Korea. And I'm very pleased to be back - here in Seoul, a dynamic global city in the powerhouse country that is helping to shape our 21st century world. And in so many ways.

I can't help but note that I'm speaking to you, this afternoon, somewhere between this luncheon's starter and your main course. I may be biased, but I believe that this morning's business seminar was today's real main course. And my thanks to Korea International Trade Association (KITA) and the Hong Kong Trade Development Council (HKTDC) for organising the valuable session. For explaining how Korea and Hong Kong can work together to build a knowledge economy. How Hong Kong can serve as a business hub for Korean companies expanding overseas. How Korea can take advantage of Hong Kong's deepening economic ties with Mainland China.

Korean-Hong Kong Partnership

Korea and Hong Kong, of course, have been close partners for many years. Consider the enormous flow of people - business people as well as holidaymakers - between us this past year. Close to 900,000 Korean visitors made business and leisure stays in Hong Kong during 2014. That makes Korea the second-largest source of our overnight visitors, behind only Mainland China. And the number of Hong Kong visitors to Korea is also surging - up an average 20 per cent a year between 2010 and 2014.

Clearly, we enjoy each other's company. That's not surprising, given that Hong Kong and Korea are two of the world's great trading economies. In merchandise trade, Hong Kong is Korea's fourth-largest export market, while Korea is Hong Kong's sixth-largest trading partner. Last year, our bilateral trade rang up an impressive US\$31 billion. And it's no coincidence that Mainland China is both Korea's and Hong Kong's largest trading partner. That certainly puts us in an enviable position to benefit from the sustained expansion of one of the world's fastest-growing major economies.

That's a big reason behind Korea's visible presence in Hong Kong. At last count, there were nearly 140 Korean companies doing business in Hong Kong. That includes 11 Korean banks and deposit-taking companies. And, just two months ago, the Hong Kong Stock Exchange listed a Korean company, Cowell e Holdings, a maker of camera modules.

There was more good news - certainly for investors - in the signing of a comprehensive avoidance of double taxation agreement last July. The agreement will help investors on both sides and encourage even closer economic and trade links between us.

Closer Regional Integration

I recall speaking at the World Knowledge Forum during my 2013 trip here, sharing my views on how Asia has become an integrated economic force. And while that's even truer today, it's not a phenomenon unique to Asia. Not when you consider Mainland China's emerging "One Belt, One Road" vision. Indeed, its scope spans Asia, Africa, the Middle East and Europe. "One Belt" will link China with Europe through Central and Western Asia. "One Road" will connect China with Southeast Asia, Africa and Europe.

Many of the countries along the Belt-Road will need huge infrastructure upgrades to fully realise the possibilities arising from this dynamic zone. The Asian Infrastructure Investment Bank (AIIB) will play an important role in supporting development along the Belt-Road.

Korea, of course, is among the 57 prospective founding members of the AIIB. Hong Kong has also indicated its intent to join the AIIB, and we've been

involved in preparation work. The region's leading finance and business hub, Hong Kong has much to offer, and much to gain, from the Belt-Road and AIIB initiatives.

Renminbi: An Emerging Trade and Investment Currency

As you heard at this morning's seminar, the Renminbi's emergence is another fast-developing trend, and opportunity.

Indeed, according to the Society for Worldwide Interbank Financial Telecommunication, the Renminbi was the fifth most used payment currency in the world as of March, with a share of more than 2 per cent. Banks in Hong Kong handled the lion's share of the flow. Last year, Hong Kong banks processed some RMB6.3 trillion in Renminbi-denominated trade, almost matching the combined total of 2012 and 2013.

Our Renminbi Real Time Gross Settlement system, which operates 20.5 hours daily, serves Korean traders working with Mainland companies, as well as the 13 Korean banks participating in Hong Kong's Renminbi clearing system. And, of course, it's a welcome platform for a wealth of players in the European and American time zones.

Today, our Renminbi liquidity pool counts more than RMB1.1 trillion in bank deposits and certificates of deposits. For investors looking to gain exposure to Renminbi-denominated assets, we can help. Hong Kong offers more than 500 such products, ranging from bonds and shares, to funds, future contracts and derivative warrants.

Hong Kong is also the centre for Renminbi risk management. We run a liquid market for Renminbi options and cross-currency swaps. It's backed by the Hong Kong Interbank Offered Rate, or HIBOR fixing. And it's the first offshore Renminbi interest-rate benchmark.

The Shanghai-Hong Kong Stock Connect, launched only last November, is another appealing way of gaining exposure to the Renminbi and economic prospects in Mainland China. The scheme connects the Hong Kong and Shanghai securities markets. It makes it easy for Korean, and other overseas investors, to trade, directly, in over 570 eligible A-shares listed on the Shanghai

Stock Exchange, through the Stock Exchange of Hong Kong.

We are now working on a similar link with Shenzhen, where many small but fast-growing Chinese companies are listed. Once the Shenzhen-Hong Kong Stock Connect is up and running, and that's expected later this year, the Stock Exchange of Hong Kong will give global investors direct exposure to three of the four largest equity markets in Asia. Now that's integration.

Hong Kong and Asset Management

Hong Kong is also the region's wealth manager, boasting the largest fund-management centre in Asia. At the end of 2013, the combined fund-management business in Hong Kong reached a record high of US\$2 trillion. More than 70 per cent of that came from non-Hong Kong investors.

The possibility of allocating your international investments through fund managers in Hong Kong is another key element of our value proposition. Indeed, nearly 80 per cent of client funds are invested outside Hong Kong, into markets ranging from the Mainland and the rest of Asia to North America and Europe.

Exchange-traded funds, or ETFs, are also developing rapidly in Hong Kong, offering investors a cost-effective way to gain exposure to a greater range of markets. Indeed, Hong Kong is now one of the largest ETF markets in the Asia-Pacific region. Just three months ago, we waived the stamp duty for the transfer of all ETFs. It's good for investors, of course. But it's also good for us, promoting the development, management and trading of ETFs in Hong Kong.

To sharpen our competitive edge even further, we plan to introduce an open-ended fund company structure. It will allow funds to be set up in an open-ended structure, as a company is. But it will offer investors trading in the funds the flexibility to create and cancel shares. This additional choice will attract more funds to use Hong Kong as their base.

And to encourage more private equity funds to expand their business in Hong Kong, we have introduced a bill in our legislature to offer private equity funds the same profits tax exemption now enjoyed by offshore funds.

Financial Technologies: A New Horizon

Allow me now to mention one other area with great potential for Hong Kong. I'm speaking of financial technologies - or Fintech. We believe that Fintech can enhance Hong Kong's efficiency in delivering financial services, and that this will help us satisfy demand in the real economy.

I have a particular interest in Fintech, in that I'm chairing a Fintech steering group with members from industry, research and development institutions, and regulatory authorities. Our mandate includes making Hong Kong a hub for Fintech start-ups.

During this trip, I will be visiting Korean organisations and companies involved in Fintech. And I look forward to hearing their views on Fintech and to discussing Hong Kong-Korean collaboration possibilities in this promising area.

Closing Remarks

Ladies and gentlemen, I hope I've whet your financial appetite, your interest in exploring a wealth of opportunities with Hong Kong business. In any case, it's time now to turn to more immediate gratifications - to the business of a very pleasing lunch, and in excellent company.

Thank you, and bon appetit.

Ends

