Speech

Speech by SFST at Boao Forum for Asia Sydney Conference in Sydney (English only) (with photos)

Thursday, July 30, 2015

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Boao Forum for Asia Sydney Conference in Sydney, Australia, today (July 30, Sydney time):

Good morning.

I'm very glad to be here at the Boao Forum held in Sydney. As you already know, Hong Kong and Australia enjoy high-level financial co-operation, mainly because we share the same common vision and goals, as well as high regulatory standards. Before I talk about financial integration, I would like to share with you my optimism about Asia's economic prospects despite the many challenges the world is facing.

Asia is expected to remain a bright spot as far as growth is concerned. India's growth, for example, is expected to strengthen from 7.2 per cent last year to 7.5 per cent this year. Drivers include lower oil prices as well as recent policy reforms and the consequential pickup in investment. Growth in ASEAN countries such as Thailand and the Philippines is also expected to accelerate.

Possible factors that affect Asian market volatility would include a future interest rate hike by the US. I would say Asia is more prepared given the changes we have made in recent years. We will be able to handle potential capital outflow from the region as a result of interest rate hikes.

In recent years, financial integration in Asia is a popular topic among officials and the industry. Many believe that financial reform and opening is a means to promote economic growth and integration. However, I believe financial integration is impossible without true openness in trade and investment flows. In other words, financial integration cannot precede economic and trade integration.

We have seen a lot of progress towards liberalising trade and investment flows in the past years. And in this regard, China's "One Belt, One Road" initiative is going to play an important role in the future. The Belt-Road is a blueprint to more fully integrate China with the rest of the world. It is also a vision to help Asian economies integrate more closely together.

Infrastructure investments along the Belt-Road will promote cross-border investment flows. It is with this vision in mind that the Asia Infrastructure Investment Bank, or AIIB, was set up to raise capital for such investments. We look forward to seeing the resulting investment flows between the countries.

The ultimate goal of financial integration is to channel Asian savings in Asian investments to support sustainable economic growth in the region. Hong Kong, as an international financial centre, will also benefit from financial and economic integration.

Under the "One Country, Two System" formula, Hong Kong maintains our own institutions while being part of China. We are in the front seat to witness and help promote China's economic and financial reforms. As I mentioned before, financial integration does not happen in a vacuum, it follows real trade, investment flows and people connections. As such, Hong Kong is in the best position to look at how the rest of the world can connect with China as it reforms and opens up.

As many of you are aware, Hong Kong has developed into a prime location for many Chinese companies to raise capital from foreign investors. Last year, we ranked second in the world in terms of IPO funds raised. Internationalisation of the Renminbi was also kicked off in Hong Kong when the offshore market was born in 2003. The Shanghai-Hong Kong Stock Connect was rolled out last November. Just this month, we have also implemented the mutual recognition of funds arrangement between the Mainland and Hong Kong.

The recent volatility in the Chinese stock market has drawn much attention. No doubt the magnitude of market correction and intervention that followed was rare by developed market standards. We must understand China is still an emerging market and rapid economic growth in emerging markets often gives rise to investment sentiments that are vastly different from mature markets. Emerging markets investors are willing to take more risks, including the use of leverage, to achieve higher returns. This is not to say we do not need better regulations. In fact, the Chinese regulators are already improving the regulatory regime for margin financing and shadow banking.

And I believe that China remains firmly committed to economic and financial opening. The authorities understand that reform is necessary to help China transit from an export and investment-led to a more balanced economy where consumption plays a more important role. This is not going to change as a result of the recent volatility in the stock markets.

To conclude, there is work we need to do in the area of regulation, but the prospect for economic, and hence, financial integration in Asia is also good. Thank you.

Ends


Boao Forum for Asia Sydney Conference
博鳌亚洲论坛悉尼会议
ASIA
NSW


Boao Forum for Asia Sydney Conference
博鳌亚洲论坛悉尼会议
ASIA
NSW