

**The 3<sup>rd</sup> Annual Asia Pacific Bond Congress  
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**Welcome address**

**“The Role of Hong Kong in  
Developing Asia’s Capital Markets”**

**By Mr Martin Wheatley  
Chairman  
Securities and Futures Commission  
Hong Kong**

Good morning Ladies and Gentlemen:

1. I am delighted to be here today to share with you some of my thoughts on Hong Kong’s role in developing Asia’s Capital Markets.
2. Asia – and of course China in particular – is a main focus of the financial world today. China’s economy is expanding rapidly, bringing with it opportunities for investors and entrepreneurs everywhere. We in Hong Kong are uniquely positioned to help propel this growth and, in the process, aid in the development of the Mainland’s markets and channel opportunities for other markets in the region.
3. There are different roles that we play in this regard and this morning I would like to focus on 2 in particular, namely –
  - ◆ first, our role as a premier fund raising centre for Mainland enterprises – that is basically, our role in bringing international capital into the Mainland
  - ◆ and secondly, our role as a platform for Mainland investors looking to invest overseas – or in other words, our role in channelling the Mainland’s huge savings to the world
4. I will also then talk a little about how, by fulfilling these roles, Hong Kong is able to contribute to the increasing economic integration within the Asian region.
5. So starting first with our role as a premier fund raising centre for Mainland enterprises
6. Mainland stocks have been listing on the Hong Kong stock market for quite some time. H-shares have been listed since 1993. You may be familiar with the products of the first H-share listings as this was Tsing Tao Brewery – maker of the famous Tsing Tao beer. Red chips started listing even earlier than this. Many of you may also recall that there was a wave of red chip listings around the time of the handover, that is around '96/'97. Many of the well-known red chips listed during this time, including China Mobile Ltd, which you may be familiar with. It is the largest red chip today in terms of market cap -- it has a market cap of over

US\$100 billion. So we have a fairly long history of listing Mainland stocks. And today, there is no question that Hong Kong is the premier fund raising centre for Mainland enterprises.

7. Hong Kong's stock markets are among the top in the world –
  - ◆ In terms of market capitalization, Hong Kong's stock market is the 8<sup>th</sup> largest in the world and the 2<sup>nd</sup> largest in Asia after Japan. As at the end of March 2006, there were a total of 1,141 companies listed here with a total market capitalization of about US\$1,200 billion. Of these, 214 (or about 19%) were Mainland enterprises (that is H-shares and red chips) and their aggregate market capitalization came to about US\$467 billion (or 39% of our total market capitalization).
  - ◆ Hong Kong also ranked 1<sup>st</sup> in Asia and 3<sup>rd</sup> in the world (after NYSE and London) in terms of total funds raised through IPOs in 2005. A total of US\$21.2 billion was raised here in 2005, with Mainland enterprises accounting for about 84% of this.
8. Moreover, some of the world's largest IPOs have taken place here in Hong Kong. For example, last year we saw the listing of the China Construction Bank, which is one of the four large state-owned banks on the Mainland. It raised about US\$9.2 billion. More recently – in fact only about 2 weeks ago on 1 June – we saw the listing of the second largest state-owned bank, the Bank of China. That raised about US\$11 billion and was the world's 4<sup>th</sup> largest IPO in 6 years.
9. Hong Kong has many strengths that make it an ideal fund raising centre for Mainland enterprises, but two in particular are, I think, key:
  - ◆ First, given its institutional constraints (such as capital account control and the level of market sophistication), the Mainland's capital markets are still at a developing stage. In contrast, Hong Kong is already an established international financial centre with a business-friendly and investor-friendly environment. We have rule of law upheld by an independent judiciary; open and fair markets, that are also deep and liquid and thus capable of absorbing and placing funds from all over; a business and investor-friendly tax regime; a stable currency; a strong and solid financial infrastructure that allows for the efficient conduct of international financial transactions; a robust and effective regulatory regime that is on a par with international standards; a rich pool of experienced professionals; the presence of established intermediaries with a global presence; and finally a free press.
  - ◆ Our second key strength is that we are ideally positioned to act as a bridge between the Mainland and the rest of the world. We enjoy close relations and proximity to the Mainland, and are also familiar with the languages, culture, practices and systems on the Mainland.
10. The combination of these qualities make us an ideal partner choice for both Mainland enterprises looking to raise funds outside the Mainland and international investors looking to tap into the growing Mainland economy.

11. Moreover, in performing our role as the premier fund raising capital for the Mainland, we are able to bring benefits to both the Mainland and other international players, including our neighbours in Asia.
12. A Hong Kong listing helps raise the regulatory and corporate governance standards of Mainland enterprises. Our Listing Rules are on a par with international standards. Mainland enterprises must comply with these before they can be listed in Hong Kong. Moreover, professionals in Hong Kong who work on the listing of a Mainland enterprise are experienced in meeting these standards, and can help companies raise their corporate governance standards and gain credibility and recognition among international investors. Over time, as more Mainland enterprises become familiar with and adopt international standards, these standards become the norm for Mainland companies, and eventually the Mainland market as a whole.
13. For their part, international investors looking to tap into the growing China market can look to a single platform for access to good quality Mainland companies with high growth potential. They can also take comfort in knowing that Mainland companies listed in Hong Kong have met rules and regulations which are on a par with international standards, and will continue to be subject to them.
14. **So that is our role as prime fund raising centre. I turn now to our role as a platform for Mainland investors looking to invest outside of China.**
15. There are still restrictions on overseas investments and cross-border capital flows on the Mainland, but these barriers to capital flow are gradually being relaxed. The Mainland's recently announced QDII scheme – Qualified Domestic Institutional Investor scheme – is a good example. The scheme will open up channels for Mainland investors to invest abroad, and to convert RMB into foreign exchange for this purpose.
16. Under the scheme banks, fund management companies, securities operating institutions (ie brokers) and insurance companies are permitted to invest in overseas markets and in certain types of financial products. Such investments may be made on behalf of clients or themselves.
17. The scheme will bring many benefits for the Mainland. First, it provides an opportunity to channel the Mainland's huge savings to the international market. This will enable investment in a wider range of financial products. It will also allow for enhanced returns (which may otherwise be limited due to the limited investment opportunities on the Mainland), and reduce risks through diversification. Secondly, the scheme will expose Mainland institutions to markets that adopt a sound regulatory framework, and intermediaries that abide by global best practices and standards. Over time, as these institutions become more familiar with the practices and operations of the more advanced markets, they will see the benefits of adopting international standards and practices, and be encouraged to demand these same standards and practices back home. This will eventually stimulate the development of the Mainland markets, particularly in terms of the level of market sophistication and standards of practice.

18. We in Hong Kong are ideally positioned to act as a platform for the distribution of the Mainland's savings, including to different regions in Asia. For example:
- ◆ Hong Kong offers a broad range of investment products ranging from low risk funds (such as bond or money market funds) to more sophisticated and specialised products (such as REITs, ETFs and hedge funds). We are also a leading fund management centre in Asia and our fund management industry has an international and offshore nature. Around 60% of our investment funds are sourced from outside Hong Kong and the majority of assets are invested outside Hong Kong. Hong Kong therefore has much to offer in terms of skills, experience and advisory services and can play a key role in advising Mainland institutions seeking to invest overseas, including of course in other Asian markets.
  - ◆ Our other financial intermediaries will also have much to offer. For instance, the large international firms, that is those who focus primarily on institutional investors will already have an established network to international capital markets and sophisticated products and services. So, again, they will be able to play a key role in advising Mainland institutions seeking to invest overseas.
19. By playing a key role in advising Mainland institutions in their overseas investments, we will be able to share our skills and experience with our Mainland counterparts. In the process, we will be able to help them better understand and appreciate the significance of complying with international standards of regulation and corporate governance. Over time, Mainland investors will themselves demand higher standards, and this will in turn enhance the quality and reputation of the Mainland financial markets. This will benefit not only the Mainland but also the Asian region as a whole.
20. So those are two main roles Hong Kong plays in developing Asian markets – bringing international capital into the Mainland and channelling Mainland savings to the international markets, including Asia. These roles have an added significance for Asia given the economic integration within the region.
21. Today, China is a major force in the global economy. It is also a key contributor to Asia's growth. In international trade, it serves not only as Asia's export platform to the rest of the world, but has also become an increasingly important export market for the rest of Asia. China is now one of the largest trading partners of a growing group of Asian countries, including Japan and Korea. Many Asian countries have enjoyed trade surpluses with China.
22. A main reason for this is that many Asian countries have moved their labour intensive production operations to the Mainland. The production process for manufactured goods is now shared among different countries with each country focusing only on that part in which it has the highest comparative advantage. This disaggregation of the manufacturing process and development of cross-border production networks is driving growth and integration in the region.

23. The continued growth in the Mainland's economy will therefore undoubtedly drive growth in other Asian economies given the increasing integration in the region.
24. In this regional economic transformation process, Hong Kong plays a unique role as the main bridge between the Mainland and the rest of the world. As the main platform for bringing international capital into the Mainland and channelling the Mainland's huge savings to the international market, including the rest of Asia, Hong Kong is able to facilitate not only the continuing growth of the Mainland economy but ultimately also the continuing growth of other Asian economies, thus bringing win-win benefits to all parties.
25. Thank you.