

Harnessing the Power of Recovery

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Introduction

Ladies and gentlemen, it is always a pleasure to be in Beijing, and today I am particularly delighted and honoured to speak at this distinguished summit.

It was almost exactly a year ago that the world witnessed a meltdown in major financial markets, and there were even concerns that the global recession might turn into a Depression. Thanks to decisive action by national governments under the leadership of the G20 on three fronts – restore confidence in the financial system, stimulate economic growth, and strengthen financial regulation – the world avoided a major financial meltdown.

The outlook recently has become brighter, as economies have begun to show signs of recovery. But there is no agreement on whether the recovery is permanent or whether this is a temporary rebound. The shape of the recovery, whether it is “V”, “W”, “U” or “L”, would depend on one’s view of the speed, strength and durability of recovery.

The worst of the recession appears to be behind us. The shape of the recovery may differ between economies and would depend on domestic and international factors and the quality of responses. On the part of the government sector, it is important to ensure the proper mix of policy, strong vigilance to guard against complacency, and unwavering discipline to stay the course of necessary reforms even in the face of pressure to return to “business as usual”. The private sector has an important role to play to properly harness the power of this recovery, which is the theme of today’s conference. This is important in order for economic growth to return and stay on a much stronger and more sustainable footing.

For the rest of my remarks, I would like to focus on China’s growing importance internationally and the role that Hong Kong can play in supporting China’s “going out” strategy.

China’s growing importance on the world stage

China’s development and growth has been stunning. In less than three decades, the world has seen the emergence of China from a planned economy to an economy that is rapidly becoming more market-based. China’s vision to open up and integrate with the global economy has been achieved in its own way and at its own pace, with a keen eye on the goal and a steady dose of pragmatism.

China is a member of the G20 and recently became a member of the Financial Stability Board (FSB), the successor organization to the Financial Stability Forum. The G20 leaders and the FSB are leading international financial reforms to strengthen the global financial



architecture and strengthen the resilience of the global financial system, in order to ensure that the world does not see the repeat of another crisis of such magnitude and severity.

Today, China is the third largest economy and the second largest trading country. China's foreign exchange reserves exceed US\$2 trillion. Given China's prominence in the global economy, it is both natural and appropriate for China to step up its internationalization strategy.

One dimension of internationalization is the opening of the capital account, and China has approached this in a gradual and pragmatic manner and at a pace that suits the needs of China. For example, the latest initiative in this regard is the launch of a pilot programme to allow renminbi settlement on cross-border trades between (i) Hong Kong/Macau and the Pearl River Delta/Yangtze River Delta, and (ii) ASEAN and Guangxi/Yunnan last December.

International experience shows that different strategies have been adopted by countries seeking to internationalise their currencies, depending on the unique characteristics of individual countries. The internationalization of the renminbi could possibly take a gradual two-track approach as follows:

- Expanding the use of the renminbi geographically, starting first with neighbouring and regional countries, then with other emerging market economies, before opening up the renminbi globally.
- Expanding the use of the renminbi for different purposes, starting with cross-border trade flows, then to investment flows, and finally to reserve holdings.

The internationalization process, naturally, would take time as the appropriate institutional and infrastructure arrangements have to be put in place, along with appropriate safeguards to ensure its success and the avoidance of unintended consequences.

I now move to the second part of my remarks, the role that Hong Kong can play in China's "going out" strategy.

Hong Kong's role in China's "going out" strategy

Hong Kong has played a major role as a test bed for China's integration with international financial markets.

- In the 1980s, Hong Kong provided a platform for the introduction of foreign capital into the Mainland as it opened up its economy. Funds raised were mainly for the manufacturing sector along the coastal provinces. This helped to boost the Mainland's export drive but also benefited the expansion of Hong Kong's services industry.
- In the 1990s, as the Mainland reformed its capital market, Hong Kong became the channel for fund raising by SOEs and the inflow of international capital.
- Beginning 2000, the capital raising activities through Hong Kong continued but with increasing focus on privately-owned enterprises. As the Mainland became more an economic powerhouse, Hong Kong provided the services of an international finance centre for the Mainland to invest its national savings and foreign reserves outside the Mainland.

China's latest initiative to allow cross-border trade settlement in renminbi is an important step to gradually open up renminbi as an international currency. It is also very important for Hong Kong to be used as a pilot centre, and Hong Kong highly values the opportunity to be a



renminbi centre under this initiative.

Hong Kong should also work to provide settlement services to countries that have to make trade settlements with China in renminbi outside the Mainland. This channel would attract capital inflows into Hong Kong. Hong Kong should also seek to create more renminbi-denominated financial products to be issued and traded in Hong Kong, as this would help to encourage companies to use the renminbi they earned from export to be invested here.

Another milestone in China's "going out" is the recent announcement that the Ministry of Finance will be issuing the first renminbi sovereign bond issue outside the Mainland, amounting to RMB6 billion in Hong Kong. Hong Kong is very honoured and looks forward to playing the role of the Mainland's premier overseas renminbi trading centre.

Concluding remarks

Under the "one country two systems" policy, Hong Kong has played a pivotal role in China's opening up. The success of this special relationship places Hong Kong in an ideal position to continue to support the Mainland on its next phase of internationalization.

Hong Kong has ready the necessary infrastructure, institutions, intermediaries and people, supported by a robust regulatory framework and a well-established Common Law legal system, to take up this new challenge.

Hong Kong welcomes the opportunity to continue to support China in the international arena, particularly in its capital market development. Through this process, Hong Kong looks forward to playing its role to support the continued development, growth and prosperity of the Mainland.

On this note, I wish the Conference every success.