Chatham House – JEF Conference
The post-crisis landscape for IFCs – sink or swim

Session 3: Panel Discussion 1:
The senior centres: scenarios for the future

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Hong Kong’s branding

- **World’s “freest economy”**
  - Fully convertible currency and open capital account
  - Open access and presence of international financial institutions, professional services and talent

- **Sound institutional structure that protects property rights**
  - Rule of law
  - Sound financial and legal system
  - Free flow of information
  - Free flow of capital

- **Business-friendly environment**
  - Simple and low tax regime
  - Comprehensive professional business support – international and global players
  - Availability of talent pool from around the world
  - Small but efficient government
Hong Kong as an IFC

- Commitment to maintain Hong Kong as an IFC is strongly entrenched in law and support from China
- Basic Law has a requirement to maintain Hong Kong as an IFC
- “One country, two systems” enables Hong Kong
  - To continue its role as an IFC
  - To have the advantages of proximity, culture and language to be the financial centre of choice to serve the needs of a vast and rapidly developing market economy in Mainland China
  - To provide investors access to 465 Mainland companies (60% of total market capitalisation and 51% of market turnover as at end-Dec. 2008)
  - To have an open professional market where overseas institutional trading accounts for 39% of trading value (total institutional trading is >60%)
- Premier Wen Jiabao stated a need “To strengthen and promote the status and utility of Hong Kong as an international financial centre”
- The Securities and Futures Ordinance entrusts the SFC to -
  - facilitate market development and innovation
  - maintain Hong Kong as a competitive securities and futures industry and as an IFC
Impact of the financial crisis on Hong Kong

- Asia’s less sophisticated financial system limits exposure to sub-prime and credit derivatives
  - Asia very much bank-dominated with capital market focused on equities
  - Asia is much less leveraged: prudent lending, strong savings, no shadow banks

- No major systemic risk in Hong Kong
  - Financial intermediaries remained steady in their trading activities
  - Futures and options market showed no concentration of positions or unusual trading
  - Short-selling activity not much different from pre-financial turmoil levels

- But weakening of confidence in the economy
  - Shrinkage in employment in most sectors
  - Reduction in spending
  - Fall in corporate profits
  - Caution in investment
  - Fall in property prices

- Slowdown in China’s growth - what are the implications for Hong Kong?
Crisis presents opportunity for more sustainable growth

- Post-Asian Financial Crisis (1997), China’s economic stimulus helped reforms that powered China’s growth
  - new highway systems created an auto industry that surpassed US auto sales
  - privatised home ownership and commercial estate unlocked private wealth, spending and investment

- Current crisis presents China opportunity for further reform to promote consumption and investment as engines of growth

- The RMB 4 trillion stimulus package over the next two years would
  - enhance efficiency and capacity, including urbanisation that would create jobs and support investment and consumption
  - support building of social safety nets that help reduce precautionary saving and boost consumption and investment

- The agricultural land reform (2008) would lead to more efficient farms and become the engine of China’s future growth
  - 750 mn rural dwellers may lease or transfer their right to use the land, which would generate huge income and wealth effects
  - Aim of doubling farmers’ income would close income gap and boost consumption
The prospects for Hong Kong

- Hong Kong would benefit as China embarks on another round of reforms that sustains its economic growth
- Hong Kong government announced 10 major investment projects, of which three will boost connectivity with the Pearl River Delta (PRD)
  - Hong Kong-Zhuhai-Macau Bridge
  - Guangzhou-Shenzhen-Hong Kong Express Rail Link
  - Cooperation between the Hong Kong and Shenzhen Airports
- The connectivity would create more opportunities by –
  - reducing the cost and time of travel on people and goods
  - accelerating economic integration of the PRD and its neighbouring provinces
  - increasing competitiveness of PRD vis-a-vis countries of ASEAN region and Yangtze Delta region
- Hong Kong can serve as an offshore RMB centre and facilitate gradual internationalisation of RMB
- Opportunities for corporate finance and high value-added services across the Strait from the Mainland/Taiwan “Three Direct Links” (air, maritime and postal)
Way forward for Hong Kong and Mainland China

- One Country (一國)
- Two Systems (兩制)

Three Collaborations (三互關係)
- Mutually Complementing (互補)
- Mutually Assisting (互助)
- Mutually Engaging (互動)
Thank You