



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

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

