

Joint Luncheon 2004
8 January 2004
Ballroom, The Ritz Carlton
Speech by the Honourable Henry Tang, GBS, JP,
Financial Secretary, HKSAR

Distinguished guests, ladies and gentlemen,

I'm delighted to be here – at last! Allow me to start by saying how grateful I am for your indulgence in letting me defer this engagement, which was originally scheduled for mid-November. I hope it's neither too late to wish you all the best at this festive season, nor too early to wish you prosperity and good fortune in the Year of the Monkey.

Certainly Spring is in the air!

Don't get me wrong; I'm not about to give you a revised GDP forecast; nor a preview of the Budget, but after a long hard winter, the global economy is clearly waking up, and that is good news for us all.

2. It is especially good news for International Financial Centres like Hong Kong. Nowadays, few would question Hong Kong's claim to that status, and let's face it, those who do tend to be jealous (regional) rivals. So just to reinforce the point let's remind ourselves where we've got to:

- our stock market ranks 8th in the world; 2nd in Asia by market capitalisation;
- we are the world's 7th largest centre for foreign exchange trading;
- virtually all the major banks in the world operate here; and
- we are also the regional insurance centre, with Asia's highest concentration of insurers and one of the most open insurance markets in the world.

3. These are all hard-earned achievements; and we are committed to building on our success. That is where all of you come in.

4. I do not intend to recite the full litany of our well-known open-economy virtues. Suffice to say that we see the role of the Government as that of facilitator. We provide the lightest possible regulatory framework consistent with prudence and equity. We leave you, the financial services industry, free to get on with the business you know best.

5. Having said that, in a global and increasingly interdependent market, we must keep our legal and policy instruments constantly under review. And here I would like to express my appreciation to all three associations for your on-going dialogue with my colleagues in the Financial Services Bureau. Let me repeat what I know they have told you: our door is open to advice; if there is something, which you think we could do better, tell us.

6. One area where your advice has been particularly helpful has been in the development of the bond market. You will have noticed increased activity on the part of various Government corporations. I hope that you will also take some satisfaction from the three-pronged policy strategy adopted and the various measures already taken or in train:

- procedures have already been simplified for public offering of bonds and work on the final phase of this will begin this year;
- we have granted a 100% concession on profits tax for qualified debt instruments with a maturity period of seven years or more, together with a 50% exemption for those of three years or more; and
- on the market infrastructure front, the Hong Kong Monetary Authority (HKMA) has continued to develop links aimed at reducing the settlement risk in bond trading, (for example by exploring linking its Central Moneymarkets Unit (CMU) with Mainland's Government Securities Book-Entry System.) We are confident that this will help attract Mainland enterprises to issue bonds in Hong Kong and to invest in the Hong Kong bond market.

7. When it comes to comparative advantage nothing beats our proximity to the vast Mainland market, combined with years of trading and investment experience in the Mainland, an abundance of professionals who know the Mainland system, and 25 years of increasingly close economic co-operation and integration. Nowhere in the world presents such enormous opportunities as the Mainland. Hong Kong is the natural platform to take advantage of them.

8. So the Government has been proactively seeking Mainland market access for our entrepreneurs in general, and for our financial sector players in particular. The landmark free trade deal between the Mainland and Hong Kong, which came into effect eight days ago, offers improved market access and first-mover advantages to 18 services sectors, including four financial services sectors, namely, banking, insurance, accounting and securities. I view this as just the beginning. CEPA allows

for a building block approach. So looking forward there will be continuous discussion and further trade liberalization between the two sides.

9. Equally groundbreaking is the signing of a Memorandum of Understanding between the Hong Kong Monetary Authority and the People's Bank of China two months ago. This has paved the way for Hong Kong's banks to offer personal Renminbi services.

10. Banks in Hong Kong will now be able to conduct four major types of personal Renminbi business, namely, deposit, exchange, remittance and Renminbi bank card services. This marks an important milestone in the cooperation between Hong Kong and the Mainland in the financial field. One immediate benefit will be that Mainland visitors will be able to use Renminbi credit cards or charge cards in Hong Kong, essentially spending beyond the legal limit of cash they were previously able to carry to Hong Kong.

11. These events have brought home to me just how much momentum economic reform has gathered on the Mainland. The accelerating pace of its financial reforms, the liberalisation of its capital markets, the growing need for sophisticated investment management and advisory services, as well as the new need for international asset diversification all offer unprecedented opportunities for Hong Kong.

12. Today, with close to US\$400 billion in foreign reserves, and savings deposits of US\$1,180 billion, China is potentially one of the largest investors in the region. Equally impressive is the number of financially strong Mainland enterprises that would like to seek public listing both as a new source of funding and for the "Q-mark" which comes with scrutiny from professionals of international standing. The recent US\$3-billion IPO for China Life topped the world, as the largest share offer in 2003. We certainly expect more to come. Make no bones about it, we are the premier international capital formation centre for the Mainland.

13. Such opportunities promise great rewards, but we must also be alive to the risks. Hong Kong excels not simply on cost or location, but on quality. The lessons of the last couple of years internationally are that no one can be complacent about corporate governance. We certainly are not. That is why you are being bombarded by our regulators with a constant stream of consultative documents on institutional review and company law reform.

14. I do not propose to detail them all here, but allow me one request. However exuberant the markets become, and such exuberance is obviously a welcome change, I urge that you all take time out to read these documents, to consider the issues, to weigh the proposals against your own international experience and give us your candid recommendations on how best to improve. Our aim is to lead, not to follow.

15. Ladies and gentlemen, Hong Kong prides itself on its international, cosmopolitan character. In many ways, you – the financial services sector – exemplify that characteristic, as well as the magnetic effect which efficient, open and honest markets exert on the global trade in both goods and services. My goal, the Government's goal, is to nurture an environment, which allows your expertise and talent to flourish, and that magnetism to grow. With the prospect of Spring in the air, I look forward to working proactively with you in building on what we have already achieved for the greater prosperity of the whole community.

16. Thank you.