李達三博士滬港發展講座

講題

# 一帶一路：香港發展的機遇

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# 關於李達三博士滬港發展講座

滬港發展聯合研究所的滬港發展講座系列的成功舉辦，有賴李達三博士鼎力支持。香港中文大學為了感謝李博士的慷慨資助，特別將該講座命名為李達三博士滬港發展講座。李達三博士滬港發展講座由 2013年起每年舉辦，邀請國際知名學者或經濟、金融及政策研究專家主講當前滬港的熱門課題，為學界、 商界、政界精英以及老師、同學分析香港與上海發展，推動滬港雙城合作、學術研究與交流，從而切實地貢獻社會。

# 李達三博士簡介

李達三博士生於浙江寧波，畢業於重慶復旦大學會計學系，畢業後來到香港經營電器銷售，在1955年成立樂聲電器有限公司，憑著勤奮和獨到的眼光，使業務蒸蒸日上，分店遍佈香港以及東南亞各地，迅即成為國際大型企業。不久更獲得聲寶牌 (Sharp) 電器產品在香港、新加坡和馬來西亞的地區總代理權。

李達三博士在商界成就卓越，同時不忘關懷社群、興學助教。李博士自1976年獲邀出任香港中文大學新亞書院校董至今，和中大已有將近四十年的情誼。李博士對中大愛護有加、關愛學生無微不至，歷年捐贈學生助學金，及工商管理學院及電子工程系多項獎學金，又在1980年捐資興建李達三樓，幫助工商管理學院擴展之用。為了表揚李博士對香港商業及本校工商管理教育的貢獻，中大於1984年頒發榮譽社會科學博士學位予李博士。李博士也大力支持醫學發展，除了資助醫學院外科學系成立「肝膽胰基金」及「李達三訪問教授計劃」，又資助消化疾病研究所的研究工作。

李博士時刻身體力行、回饋社會。2011年，在李博士的捐資和協助下，香港中文大學與寧波大學簽署李達三國際交流發展基金項目合作協議，共同推動雙方在學術和學生交流、科研以及人才培養方面的合作。2013年，中大再次得到李博士的鼎力支持，捐款協助滬港發展聯合研究所，推動滬港雙城發展及合作、學術研究與交流，包括舉辦講座，為表謝意，中大把講座命名為「李達三博士滬港發展講座」。香港特別行政區政府在2015年向李博士頒發大紫荊勳章，讚揚他長期參與社會及慈善服務，尤其對本港高等教育及人才培訓方面，不遺餘力，是一名備受尊崇的慈善家。

# 講者簡介

陳家強教授於二零零七年七月一日獲委任為財經事務及庫務局局長。加入政府前，陳家強教授是香港科技大學工商管理學院院長。

陳家強教授畢業於美國衛斯理大學，獲授經濟學學士學位，其後在芝加哥大學獲授工商管理碩士和財務學哲學博士學位。陳教授專長研究資產定價、交易策略評估及市場效率，並曾發表不少有關文章。他曾擔任多項重要公職，包括消費者委員會主席、香港期貨交易所董事、策略發展委員會委員、扶貧委員會委員、外匯基金諮詢委員會委員、恒生指數顧問委員會委員及香港學術評審局委員。此外，他曾出任亞太金融學會主席及亞太商學院聯會主席。

# One-belt One-road: Opportunities for Hong Kong

Professor K.C.Chan
4 December, 2015
Manuscript of speech

Professor Sung, distinguished guests, ladies and gentlemen,

Good evening. I'm very glad to see such a large audience here at the Chinese University of Hong Kong on a Friday evening. I'd also like to thank the Shanghai-Hong Kong Development Institute for inviting me to give the Shanghai-Hong Kong Development Lecture this year, bringing back my fond memory of lecturing to a class. You have indeed invited me at a time when I am most eager to speak on Shanghai and Hong Kong.

This is no coincidence. The ties between Shanghai and Hong Kong have never been closer in recent years. Through an unprecedented direct link between the two stock exchanges under the Shanghai-Hong Kong Stock Connect, investors may invest in the other market through their home brokers and accounts. Further to say is the Mutual Recognition of Funds (MRF) arrangement, implemented in July, which will allow Hong Kong investors direct access to approved fund products from the Mainland and vice versa.

The Stock Connect and the MRF are important milestones on the Mainland's march towards bilateral opening of its capital markets. They are implemented against a backdrop of separate yet rapid developments in Hong Kong and Shanghai as the Mainland reformed and opened in the past three decades.

Hong Kong has always been an open market where funds and information flow in and out freely. Financial institutions from all over the world are welcome to set up shop here, and in this process, we have been competing and co-operating with other financial centres such as New York, London, Tokyo and Singapore.

The continued reform and opening of the Mainland has brought Hong Kong new opportunities and the two economies have been growing closer and closer ever since. Capital market links were added to trading and commercial ones in 1993 when the first Mainland H-share IPO was issued in Hong Kong. The H-share market has been growing rapidly since then. At the end of October, there was a total of 927 Mainland enterprises trading in the Hong Kong Stock Exchange, with a total market capitalisation of over HK$15 trillion. Hong Kong is at the same time the world's seventh and Asia's third largest stock market by capitalisation. In terms of IPO funds raised, we were first in the world during the first 10 months of 2015, and have been among the top five since 2002.

At the same time, the offshore Renminbi (RMB) market was born here in 2004 when Hong Kong banks started to offer RMB deposits, exchange, remittance and credit card services to personal customers. This was followed by the issuance of the first offshore RMB bond in 2007, the launch of RMB cross-border trade settlement arrangement in 2009 and the introduction of the RMB Qualified Foreign Institutional Investor (RQFII) scheme in 2011. During the process, Hong Kong has played the role as a unique testing ground for various policies designed to increase the use of RMB offshore.

Standing at about RMB 1 trillion at the end of October, Hong Kong's pool of offshore RMB liquidity was the largest in the world. At the same time, outstanding RMB loans stood at RMB 294 billion and a total volume of over RMB 660 billion of RMB bonds were issued on an accumulative basis. During the first 10 months of 2015, RMB 5,700 billion worth of cross-border RMB trades were handled by Hong Kong banks, with 217 banks participating in our RMB clearing platform.

Hong Kong is also an offshore RMB asset management center, with 79 fund companies granted RQFII quotas and 95 listed and unlisted funds managing over RMB60 billion. The daily volume of RMB handled by our RTGS (Real Time Gross Settlement) passed the RMB 1,000 billion mark for the first time in July, surpassing the daily HKD amount settled.

In September, RMB was the fifth most used payment currency in the world according to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), and 70 per cent of the RMB settlements are conducted in Hong Kong. After two years of smooth operation here, the RQFII scheme is now expanded to 13 markets in the rest of the world. We have also grown into the largest and most efficient offshore RMB center during the process.

All this time Shanghai has not been sitting on the sidelines. In fact, the rapid growth of Shanghai's capital markets is no less spectacular, playing a crucial role in the reform process of the Mainland's capital market. In 1990, the State Council announced the development of the Pudong New District and the Lujiazui Financial Zone. At the end of the same year, the Shanghai Stock Exchange was established with 25 members and eight listed companies issuing 30 types of securities. At the end of October, the Shanghai market was already the world's fourth largest by market capitalisation, with 1,071 listed companies that were worth a total of RMB 27,850 billion. The Shanghai Composite Index, too, has also grown from a base of 100 to 3,456 points on Monday, witnessing the exponential growth of the Mainland economy and capital markets.

Besides being an equities stronghold, Shanghai is also a trading centre for metals and agricultural commodities futures. Founded in 1999, the Shanghai Futures Exchange offers trading services for 14 futures contracts with more than 200 members and is one of the major futures exchanges in the Mainland.

In 2013, the China (Shanghai) Free Trade Zone was established to speed up innovation in financial regulations, capital account opening, interest rate liberalisation, exchange controls and ownership. The setup of the Free Trade Zone clearly demonstrates the new leadership's commitment to reforms and opening, as well as the role Shanghai is playing in supporting the real economy through financial reforms.

It is only with this background in mind that we can fully appreciate the significance of the Shanghai-Hong Kong Stock Connect launched last year. Through direct connection between the two exchanges in the same time zone, the Stock Connect allows direct access between two markets in a risk-managed manner. With a total market capitalisation of US$7,624 billion at the end of October, the combined market was the second largest in the world.

Through regulatory co-operation between the China Securities Regulatory Commission and the Hong Kong Securities and Futures Commission, the Stock Connect arrangement allows each market to reserve their respective rules and regulations, laying the foundation for further co-operation in other areas. The launch of the Stock Connect is the boldest step yet in China's push towards full opening of its capital markets - a pledge made at the Third Plenum in 2013.

The Mutual Recognition of Funds arrangement implemented in July is another exemplification of the Central Government's commitment to open the Mainland's capital markets. As the first such scheme between the Mainland and a market outside the Mainland, the MRF allows qualified Mainland and Hong Kong funds to offer directly to retail investors in each other's market after obtaining authorisation or approval under streamlined procedures.

With capital flows managed by professional asset managers, the MRF will expand mutual capital market access between the Mainland and Hong Kong in an orderly manner and raise the participation of institutional investors in the Mainland. The scheme will allow Hong Kong and international investors to access the Mainland's diverse pool of public funds. At the same time, many asset managers are already getting themselves ready for distribution in the Mainland by upgrading their Hong Kong operations and building distribution networks. As more funds will be domiciled in Hong Kong, the scheme will help strengthen our fund manufacturing capabilities and develop Hong Kong into a full fund service centre.

From a broader perspective, the MRF will also help the Mainland and Hong Kong regulators to jointly develop a shared set of regulatory standards for fund products. A shared standard will help promote integration of the Asian asset management industry and facilitate the transfer of Asian savings into cross-border investments in the region. It will also help promote the use of the RMB as an investment currency and reinforce Hong Kong's position as the preeminent offshore RMB centre.

The successful launch of the Stock Connect and the MRF is not only a manifestation of the Central Government's commitment to reform and opening; it also exemplifies the complementary nature between Shanghai's and Hong Kong's markets. An efficient and developed capital market will help companies of all sizes in China to raise the much needed capital. Such a market will also serve the society by allowing individuals and corporations to grow their wealth and allow individuals to plan for their retirement.

Going forward, Hong Kong will continue to consolidate our role as China's international financial centre by capturing the opportunities brought about by the Mainland's continued reform and opening under the 13th Five-Year Plan. We will also take advantage of the continuing capital market opening, especially the improved flows between the offshore and onshore markets, to improve the breadth and depth of our RMB markets, so funds may be raised and transactions may be executed more cheaply and efficiently.

This is of utmost importance as the RMB was included by the International Monetary Fund (IMF) into its Special Drawing Rights (SDR) currency basket this week. The IMF's decision is a key milestone in RMB internationalisation. In the past decade, the RMB has made significant progress in its use as a trading currency and investment currency. The addition of the RMB to the SDR basket will establish its use as a reserve currency.

Joining the US dollar, Euro, pound sterling and Japanese yen, the RMB will have a weight of 10.92 per cent in the basket. The demand for RMB will hugely increase as the addition takes effect next October. The increase in RMB holdings by central banks in the world is estimated to be in the order of thousands of billions of RMB, along with enormous demand for RMB-denominated assets. The global RMB market will see increases in the needs for derivatives and other risk management tools. As the largest offshore RMB centre with close ties with the Mainland, Hong Kong will seize this historic opportunity to strengthen our RMB infrastructure and product offerings.

The IMF decision is also a timely one as China adopts the "Belt and Road" development strategy and the Asian Infrastructure Investment Bank is being set up. Financial integration has been a hot topic among Asian officials and the industry in recent years. Financial reform and opening is seen by many as a means to promote economic growth and integration. However, I believe financial integration is impossible without true openness in trade and investment flows. In other words, financial integration cannot precede economic and trade integration.

We have seen a lot of progress towards liberalising trade and investment flows in the past years. And in this regard, China's "Belt and Road" initiative is going to play an important role in the future. It is a blueprint to integrate China with the rest of the world. It is also a vision to help Asian economies integrate more closely together.

Infrastructure investments along the Belt-Road will promote cross-border investment flows. It is with this vision in mind that the Asian Infrastructure Investment Bank, or AIIB, was set up to raise capital for such investments. The bank is expected to be in operation this month and we look forward to seeing the resulting investment flows between the countries.

The ultimate goal of financial integration is to channel Asian savings in Asian investments to support sustainable economic growth in the region. Hong Kong, as an international financial centre, will also benefit from financial and economic integration.

Under “one country, two systems”, Hong Kong maintains our own institutions while being part of China. We are in the front seat to witness and help promote China’s economic and financial reforms. As I mentioned before, financial integration does not happen in a vacuum; it follows real trades, investment flows and people connections. As such, Hong Kong is in the best position to provide the business facilitation and financial intermediation in connecting the rest of the world with China.

During this process, Hong Kong’s role as an international financial centre will continue to evolve in response to market demands. Due to market restrictions in the past, Hong Kong and Shanghai were de facto financial hubs for the offshore and onshore markets respectively, but with little connection between the two. As the Mainland markets continue to open, the division of labour between Shanghai and Hong Kong will continue to change.

The Shanghai markets will gradually become more international, and the RMB will eventually be freely convertible. These developments will open Hong Kong to opportunities that were not available before. And at the same time, the division between the offshore and onshore markets will be blurred, and the two markets will be more intertwined with each other. It does not mean that Hong Kong will lose our offshore market advantage. Rather, our offshore market should not be built on the basis of a closed China market. We should make full use of the opening of China’s capital market, and the increasing linkage between the offshore and onshore markets, to build an international financial centre that serves the increasing appetite of the world for Chinese currency and investment assets.

This process will be a dynamic one and may take a while, subject to the external environment and pace of reform in the Mainland. There will not be a charted course for us to follow. However, we have learnt from past experience that the energy and opportunities unleashed from new reform will benefit all parties involved.

As such, Hong Kong will continue to position ourselves as China's international financial centre. We will continue to embrace a nationality-neutral policy and to maintain low tax rates and a simple tax regime. We will also preserve our multiculturalism through setting a level playing field, and welcome individuals and companies from all over the world to set up here. The financial industry should also stay competitive and alert of the many changes that are occurring every day. By taking full advantage of opportunities arising from the Stock Connect, Mutual Recognition of Funds, "Belt and Road" and the 13th Five-Year Plan, Shanghai and Hong Kong will be able to play their respective roles and contribute to China's reform and development.

Thank you.

Ends/Friday, December 4, 2015

# Q&A Session

***1. Can you comment on two things: 1) Opportunities and challenges of Hong Kong, 2) The fate of Hong Kong dollars in the future.***

For the first question, the market reform opening in China will unleash the entire Chinese economy and allow individuals or companies to go overseas and invest their money. Despite the competition from Shanghai, Hong Kong has a unique and valuable opportunity to serve as the intermediary in the whole process.

There are many challenges that Hong Kong is facing. For instance, the market reform process is capricious. It's hard for the individuals and companies to react precisely. The mutual recognition of funds will be issued soon, and people hope it will happen gradually. However, histories in financial markets reform tell us the market is volatile. Industries need to be ready and position themselves, to take advantage from the momentum of market reform.

Another example is that Hong Kong financial market is too one-dimensional. Hong Kong has a strong equity market, but it doesn't have a good bond market. That is because a bond market needs both issuers and users. Hong Kong can develop its own bond market only if there is a demand for Chinese firms to issue RMB bonds. In order to development bond markets, we need a set of users who use RMB bonds in Hong Kong market, where the issuers are Chinese firms. The setup of RMB bonds depends on the access of funding from Chinese firms, the process of market reform, and many others.

For the second question, if one day RMB becomes a fully convertible international reserve currency, like the US dollar, it would be worthy to rethink if HK dollar should be linked with the US dollar. However, we don't foresee that happening easily in the near future, so it's a theoretic question. By the time RMB becomes an international reserved currency, I believe the government will have solution to tackle this.

***2. It seems that One-belt One-road is comparable with European Union, i.e. having an Asian community on union, with division of labor for different Asian countries. What do you think?***

The One-belt One-road strategy is a vision of what the belt road countries should look like, to enjoy economic growth and improve efficiency. China wants to serve as a facilitator, not a driver, in the One-belt One-road plan. The Asian Infrastructure Investment Bank is set up as a vision of multi-nationalism, and improves the linkage between countries. I think the belt road does the same.

Meanwhile, I think Hong Kong has ignored the economic opportunities from One-belt One-road countries, i.e. Southeast Asia. It is crucial for us to re-educate ourselves to know more about Southeast Asian economies. For examples, we can improve the curriculum at schools and universities, encourage people to visit Southeast Asian countries more often, and do more businesses with these countries. These measures will be rewarding eventually.

***3. After China completely opens its market, there is no need for Hong Kong to serve as the intermediary between China and the world. What would our role be? Should we focus more on Southeast Asia markets in the future?***

If a country wants its dollar to be a currency for trading and investing, there must be onshore and offshore markets to store them. For example, London is currently an offshore market for the USD. If RMB becomes another global reserve currency, where investors use RMB as payment and investments, they want to keep their money at local banks (onshore), or banks overseas (offshore). Investors tend to keep their money at banks that they are familiar with, so international banks and financial institutions will conduct RMB businesses offshore, among themselves. Hong Kong can serve as a center for offshore market, since we are one of the leading global financial centers. We are not only competing with the accessibility with the world, but also the multitude of financial service that we provide worldwide (i.e. be the most efficient in all financial service dimensions).

***4. My circle of business friends keeps saying that "One-belt One-road initiative is the vision for Hong Kong, but the Asian Infrastructure Investment Bank is the real mission for Hong Kong". They said that Hong Kong people can only participate in the Asian Infrastructure Investment Bank. What is happening in Hong Kong in relation to the Asian Infrastructure Investment Bank?***

The Asian Infrastructure Investment Bank (AIIB) is a concrete concept, since fund-raising is on-going for multiple infrastructure projects. Hong Kong has experience playing in fund-raising. Although Hong Kong is not yet a member of AIIB, we want to be admitted in AIIB soon. We also mentioned publicly that we plan on performing some treasury and financing functions for AIIB.

On the other hand, OBOR is a vision. Under this vision, we should think of what can be done to expand businesses and investment opportunities. The HKSAR government has done a lot on these aspects. We are increasing our linkage, on government to government level, with belt road countries. For instance, we have been negotiating on tax treaties between Hong Kong and belt road countries. A decent tax treaty benefits businesses in Hong Kong. We are also building more representations of Hong Kong at belt road countries, to facilitate businesses in Hong Kong.

***1. Someone said the Chinese initiative sometimes starts with a bang and ends with a whimper. Do you think this is happening on One-belt One-road as a vision and nothing concrete? Also, Singapore is chasing after us, trying to replace Hong Kong as the No.1 RMB offshore market. What do you think our government or enterprises should do to increase our competiveness?***

The first question is hard to answer because the results from One-belt One-road are uncertain. However, AIIB happens very quickly. The way that China gets AIIB going and negotiates with major international countries to join AIIB is a remarkable process. It's a demonstration of impressive political and diplomatic skills.

AIIB is a concrete thing because it is making real contribution. Chinese firms are investing in infrastructures, building bridges and railroads in other countries. Yet, I am more interested about Hong Kong, particularly on the softer side. I would like to see

Hong Kong companies capture some opportunities when the market starts to develop. With AIIB, investments from Chinese firms are happening, so is economic growth. It's our job to figure out how to react.

For the second question, Singapore is a worthy competitor to Hong Kong. Singaporeans are well-organized and work quickly. Singapore gets things done faster than Hong Kong because it is a top-down regime. However, in terms of RMB space, I am not too concern about Singapore. In RMB space, Hong Kong has tremendous connection with China, from finance, trade, investment and people. Indeed, the Hong Kong is China's largest trading partner. Such trade and investment flows come from financing needs. Our financing needs are not invented by our government. They happen naturally. It is hard for Singapore to compete against Hong Kong in terms of natural business flows, as well as natural demand in RMB.

In terms of competition, I have mentioned before, it comes from London. London is our real competitor. London has all the advantages and infrastructures to be one of the biggest global financial centers. Also, London is located in Europe with European time zone. It's hard for Hong Kong to compete against London, serving European customers in their time zone.

On the other hand, New York has not done anything with RMB space. I don't know if it will change in future, but I am sure New York and London are competing themselves. Hong Kong is fortunate to have its natural advantage (connection with China, and same time zone with China), so Hong Kong is a good location to be a RMB offshore market.

1. ***Singapore has surpassed Hong Kong in GDP, GDP per capita and many other indices. What is your opinion about this? What does our government plan to face the challenge from Singapore?***

The success of Singapore is remarkable. I don't think Singapore does better than Hong Kong in selecting industries. However, Singapore has a very liberal human resource policy. A lot of GDP growth is contributed by the influxes of non-Singaporeans. They have very active, aggressive recruitments for foreigners in professional and business sectors, a liberal immigration policy, as well as large supply of manual workers. As a result, Singapore develops faster than Hong Kong, e.g. land expansion and constructions. Whether Hong Kong should follow what Singapore has done is debatable. Yet, looking from Singapore's experiences certainly can help us think about our own difficulties.

1. ***For OBOR, Hong Kong government and Chinese government are often mentioned, but businesses and communities are ignored. Nobody discusses about them. People say "OBOR is an opportunity for Hong Kong". I see OBOR as an alarm for Hong Kong, because Hong Kong no longer has the international perspective. We lost the perspective over the last 20-30 years. We are not London. In London, its own currency used is limited, but deals flow to London. Therefore, the important message about OBOR is that the deals need to flow through Hong Kong, so that we have our role to play, i.e. multi-currency, multi-user, multi-supplier and multi-consumer. What government plans to help businesses and communities to achieve this role?***

The OBOR opportunities essentially mean "getting ourselves to be more knowledgeable". I see the Belt-road initiative as a way to re-educate ourselves, to look at the world somewhat differently. Our government is indeed thinking about this problem. The raising of awareness and bringing OBOR knowledge into discussion and curriculum are important.

I want to make a remark about what our government has been doing. I mentioned earlier about increasing representation. When our Chief Executive was in Indonesia, he announced the setup of the Hong Kong Economic and Trade office in Jakarta. So, we are increasing our representation, which helps us bring more trade groups. We are trying to bring more trade groups from Jakarta to Hong Kong. This requires continuous efforts.

If you look at Hong Kong 30 years ago, Hong Kong has very strong link with Southeast Asia due to ancestry and immigration. Now, we have lost some of these international linkages. We are still well-connected with China and western countries, but we are missing the connection and knowledge with our “backyard” (Southeast Asian countries). This is something that we should catch up.


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