

Moving with the Times

Hong Kong must move with the times by making itself an efficient platform for Mainland financial intermediation.

A number of journalists with specialised interests in financial developments in Hong Kong asked for my interpretation of the "move with the times" speech delivered by the Governor of the People's Bank of China, Zhou Xiaochuan at the Annual Dinner of the Hong Kong Association of Banks on 30 September 2005. The "move with the times" comment was made by Governor Zhou in relation to maintaining the status of Hong Kong as an international financial centre.

We should of course all move with the times and be alert to changes taking place around us if we do not wish to be left behind. This comment has a universal application and is particularly important when times are changing rapidly. Those with the ability to anticipate changes and prepare for them stand a much higher chance of success. Those that carry on doing the same things in the same old way will simply be left behind. This is the reality.

I obviously do not wish to quote others out of context or to put words in others' mouths, just as I do not wish anybody to do the same to me. But Governor Zhou delivered an important speech on a matter of great importance to Hong Kong - so important that it merited special reference in Article 109 of the Basic Law - the maintenance of the status of Hong Kong as an international financial centre. And the HKMA does have certain indirect responsibilities for this subject, derived from the Financial Secretary's authority in the Exchange Fund Ordinance to use the Exchange Fund, with a view to maintaining Hong Kong as an international financial centre, to maintain the stability and the integrity of the monetary and financial systems of Hong Kong. So, for what it is worth, I will make an exception to my usual practice and offer my (undoubtedly subjective and possibly biased) interpretation. Since I don't speak from a position of authority, my comments will concentrate more on how times are changing and less on how we in Hong Kong should move with them.

Governor Zhou made it abundantly clear that, in terms of the financial environment in which Hong Kong operates, times are changing and changing fast. He made six important points. First, the savings rate on the Mainland is high by international standards and increasing, in contrast to a zero savings rate in the United States. I take this to mean that there is an exceedingly large amount (relative to GDP) of domestic savings on the Mainland to be mobilised and channelled into the hands of those raising money to finance activities that promote economic growth and development. The question is how this should be done.

Second, there has been a net inflow of foreign direct investment into the Mainland and, presumably because there is plenty of liquidity, the Mainland authorities are beginning to encourage domestic savings to "move out". I take this to mean that there is more than enough money around: so much that it is storing up potentially difficult tasks for monetary management if the undesirable monetary consequences of high savings combined with capital inflow are to be contained. There is therefore a need for a policy shift away from a preference for capital inflow to encouraging domestic savings to "move out". The questions here are many - the crucial ones are again how to do it; what sequence to adopt in capital account liberalisation; how the associated risks are to be managed; and, I suspect, how to manage the political process.

Governor Zhou's third point was that the net international investment position (NIIP) of the Mainland has changed. I take this to mean that the NIIP is now significantly positive and increasing, which is a fact. Along with the earlier points, this suggests to me that the changing times may well involve a modification of foreign direct investment (FDI) policy, or at least the emphasis placed on it. Indeed, Governor Zhou made the fourth important point which is that "some have suggested views on FDI that are different from before"; and the fifth which is that "some on the Mainland have criticised (the raising of money by Mainland enterprises through) IPOs overseas", to the extent that "the background for Hong Kong's role as an international market for the Mainland to raise foreign capital is changing", which is his sixth point. This brings into question the sustainability of Hong Kong as an IPO centre for Mainland enterprises.

So times are indeed changing, but I think, without I hope sounding complacent, that we in Hong Kong are well prepared and positioned to move with the times, in order to maintain the status of Hong Kong as an international financial centre. It is clear to me what our new emphasis should be, in addition to what we are doing already. This is to try and play a meaningful role in mobilising the domestic savings of the Mainland, both in channelling them into the hands of fund-raising entities on the Mainland and in facilitating their "moving out". It is also clear to me what our strategy should be. For financial services that have to be provided on location, for example retail banking, we should try to improve access by Hong Kong financial institutions to the Mainland. For financial services that do not need to be provided on location, for example those of capital markets, we should improve the infrastructure of the Hong Kong financial system to make it better able to match the needs of those on the Mainland who have money to invest with the needs of those who want to raise money.

While we in Hong Kong prepare and position ourselves to move with the times, including for example the development of renminbi business in Hong Kong, (or more precisely developing our ability to handle financial transactions in renminbi), there are pre-conditions crucial to our success. We await with considerable enthusiasm favourable developments on those fronts. If I may be allowed to use a Cantonese slang expression to conclude: just "let the horse come through" ("horse" in Chinese has the same sound as "chips", which is a slang term for "money").