

## Asian Financial Forum 2018

### Breakfast Panel on “Hong Kong Connects: Mainland China and Beyond: Stock, Bond, Mutual Recognition and more.....”

#### Synopsis

Following the launch of Shanghai-Hong Kong Stock Connect in 2014, Mutual Recognition of Funds in 2015 and Shenzhen-Hong Kong Stock Connect in 2016, Bond Connect in 2017 has been another important milestone in achieving synergy between the capital markets in mainland China and Hong Kong. The Connects now cover stocks, mutual trust funds and bonds, and are Hong Kong’s best credentials, reinforcing its status as an international financial centre and as the ideal location for financial institutions anywhere in the world to enter the mainland market as well as for mainland companies to develop new markets overseas.

All these Connects are accompanied by dedicated infrastructure links, established specifically for the cross-border flow of money and financial products such as stocks, mutual trust funds and bonds. These links have resulted in significant daily turnover in both directions. The Belt and Road Initiative provides the Mainland-Hong Kong Connects with an external dimension, which in the long term will extend to economies throughout Eurasia.

Speakers who have been in the forefront of the establishment of these Connects discussed how Hong Kong creates value through them, and the opportunities and risks that lie ahead.

#### *Welcome Remarks*

- **The Hon Mrs Laura M Cha, GBM, GBS, JP**  
Chairman, Financial Services Development Council, Hong Kong; Non-Executive Director, HSBC Holdings plc.

#### *Moderator*

- **Mr Benjamin Hung Pi Cheng, BBS, JP**  
Regional Chief Executive Officer, Greater China & North Asia;  
Chief Executive Officer, Retail Banking,  
Standard Chartered Bank

#### *Speakers*

- **Dr Min Zhu**  
President, National Institute of Finance Research, Tsinghua University; Former Deputy Managing Director of the International Monetary Fund
- **Mr Norman T. L. Chan, GBS, JP**  
Chief Executive, Hong Kong Monetary Authority
- **Mr Charles Li**  
Chief Executive, Hong Kong Exchanges and Clearing Limited

Laura Cha provided background information on the Financial Services Council and the Connects scheme. With the Connects, she pointed out that for the first time mainland investors can invest easily in the Hong Kong market, and Hong Kong and overseas investors can invest in China. By the end of October 2017, mainlanders had invested HK\$3.32 trillion in Hong Kong stocks and Hong Kong and overseas investors had invested RMB4.5 trillion in mainland stocks. These Connect programmes have taken Hong Kong's finance to new heights, and each success has led to a new Connect. The mainland bond market is now the third largest in the world. Cha said it is up to Hong Kong to take advantage of the opportunities the Connect schemes offer.

With Hong Kong's rule of law, sound financial system and abundant financial talent, it will continue to benefit from the Connect system. Next, Hong Kong will have to step up as a link between Belt and Road countries, she said.

Benjamin Hung discussed Hong Kong's strategic role and some of the risks and opportunities with China, especially for Hong Kong. He pointed out that the global economy is doing well, with 3.6 per cent growth in 2017 and 3.7 per cent growth predicted for 2018 (US: +2.3 per cent, China: +6.9 per cent; Asia: +5.6 per cent, HK: 3.7 per cent) and that Hong Kong will have to follow and adapt to the structural changes in China to take advantage of opportunities.

Norman Chan said the world economy is in better shape this year, but that in the West things are too good to be true. He is concerned about complacency and exuberance in financial markets and noted the political risks for trade confidence in areas such as the Korean Peninsula and the Middle East. His main economic concern is whether inflation can remain low with continued low interest rates. He said if any of the risks occur, markets will fall. Things are going well, but we must be prepared for change and build up our financial capacity.

Charles Li predicted that the U.S. will continue to lead in innovation and technology, but lag everywhere else, that Europe will continue to be depressed, and that China will continue to rise. He said the world will have to get used to a two-pillar world, the U.S. and China, or three-pillar world, if Europe is included – and Hong Kong's role is to help make the pillars more interactive.

In a discussion about linking growth with low inflation, Min Zhu pointed out that China is focusing on sustainable growth, and that technology reform is a key issue, paving the way. He said that Hong Kong can play a tremendous part in improving the quality of China's growth through its strength in services and pointed out that services now make up about 70 per cent of Hong Kong's GNP, compared to tourism, for example, which is only 5 per cent, although it provides 10 per cent employment.

Norman Chan agreed with Min Zhu that Hong Kong's strength is in services and that it is a very important link to mainland markets. He said that Hong Kong has always been the largest source of foreign direct investment (FDI) in China and that at present Hong

Kong receives 50-60 per cent of China's outbound direct investment (ODI). He explained that although this is a lot of money, most of it is just held in Hong Kong and then moved to the US, Europe, etc. He said many foreign companies had tried going direct to China, but then realised that Hong Kong is a good strategic location to manage their China business from for three main reasons: (1) Hong Kong's proximity to the mainland market, (2) The fact that Hong Kong is part of China, with a shared language, culture and history, resulting in good communications, and (3) Hong Kong's rule of law and independent, truly bilingual judiciary, which is highly valued by foreign companies. He said China's trade with emerging markets is skyrocketing, so Hong Kong must develop its financial services beyond the US and UK, and added that technology, artificial intelligence and environmental solutions are high-growth areas in China, so that a big strategic issue for Hong Kong will be finding a way to be the main gateway for China's talent.

Charles Li suggested that many foreign companies want to do business in China, but they do not want to be there physically, and that Hong Kong and the Connects provide a partial solution. He regards the HKEx and the Shanghai and Shenzhen exchanges as super brokers and super clearers, allowing mainland investors to invest in Hong Kong, and Hong Kong and overseas investors to invest in mainland markets. The success of the Connects lies in their being trusted by investors on all sides. He predicted that the Connects will still exist in 20 years because while they do not remove the wall between China and the world, they provide a bridge that allows convenient investment with a strong element of trust on both the mainland and Hong Kong sides.

Norman Chan contrasted China's gradual opening-up with the big bang approach favoured by many Eastern European countries, which was painful and disruptive. China avoided this, but needs to build bridges over its protective walls, and Hong Kong is the logical choice for many foreign companies which prefer Hong Kong's common law system, and for mainland companies that want to use Hong Kong as a springboard to overseas markets.

Moderator Benjamin Hung asked the panel about Hong Kong becoming just another mainland city. Charles Li maintained that China does not need another Shanghai, Shenzhen or Guangzhou. It needs Hong Kong to be different.

Charles Li responded to a question about future Connect platforms, saying he thinks Asian derivatives will be next.

Regarding The Belt and Road Initiative, Norman Chan said that it is exciting and challenging, but will take decades, given the lack of infrastructure in many Belt and Road Initiative countries. He said that financing is a big part of it and Hong Kong is a hub for regional investment, so it needs to make sure it has the infrastructure and talent to fully exploit its potential.

Charles Li suggested that Hong Kong expand its role as a financial intermediary, helping convert the resources of Belt and Road Initiative countries to equity value,

guaranteeing a return on investment and assuring countries that their resources are used properly.

Min Zhu said that Hong Kong's role goes beyond finance to derivatives, insurance and risk management, and that the services sector is enormously important for the Belt and Road Initiative.

**ENDS**