

Promoting best practice

INTERVIEW WITH HENRY TANG

FINANCIAL SECRETARY, HONG KONG SPECIAL ADMINISTRATIVE REGION



HENRY TANG

holds a Bachelor of Arts Degree from the University of Michigan, an Honorary Doctorate in business administration from the Hong Kong Polytechnic University and an Honorary Doctorate in law from the City University of Hong Kong. Mr Tang has been a member of the Executive Council since 1997 and served as a member of the Legislative Council from 1991 to 1998. Prior to assuming his current position, he was Secretary of Commerce, Industry and Technology from July 2002 to August 2003. Before joining the Government, Mr Tang was a leading industrialist in Hong Kong. He served as Chairman of the Federation of Hong Kong Industries between 1995 and 2001 and received the Gold Bauhinia Star Award in 2000.

China's former Premier Zhu Rongji famously described Hong Kong as Toronto to Shanghai's New York. How do you see the SAR's role in the development of China's financial sector?

Hong Kong is an international financial centre and as such, is well positioned to play a key role in helping Mainland enterprises raise funds and in transferring professional and managerial skills to financial institutions in the Mainland.

The stock market in Hong Kong provides a deep and liquid source of funds for Mainland enterprises, including financial institutions. Since the introduction of H-shares in 1993, Mainland enterprises have raised more than HK\$1,000 billion (£73 billion) in Hong Kong. About 30 per cent of the listed companies in Hong Kong are Mainland enterprises, accounting for about one-third of our total market capitalisation and 45 per cent of market turnover. The vast majority of Mainland enterprises listed outside the Mainland are quoted on our stock exchange and more than 70 per cent of their trading is conducted in Hong Kong. Hong Kong also has a well developed debt issuance infrastructure and we welcome more Mainland companies to raise funds by issuing bonds in Hong Kong.

Hong Kong's financial institutions subscribe to the best international practices of accounting, auditing, disclosure and governance and many of them are setting up branches, representative offices and joint ventures in the Mainland. They will hence contribute to raising the internal control and corporate governance standards in the Mainland.

How successful has the CEPA initiative been in opening up new opportunities for Hong Kong's financial institutions in the Mainland's financial markets?

CEPA has enabled Hong Kong's financial institutions to gain better access into the Mainland market by substantially lowering asset requirements for Hong Kong banks to set up branches in the Mainland, and raising the maximum equity participation by Hong Kong insurers in Mainland insurance companies. We recently reached an agreement with the Central authorities and announced, on October 18, further liberalisation measures under CEPA III, including allowing more flexibility for Hong Kong banks in the Mainland in fulfilling the requirement on the level of operating funds.

What possibilities do you see to expand Hong Kong companies' dealings in renminbi (RMB) denominated products and services in the near future?

In my 2005 Budget Speech I set out three strategic directions for the further development of RMB business in Hong Kong, namely: exploring the diversification of RMB assets and liabilities of Hong Kong banks – for example, allowing non-residents and non-individuals to hold RMB deposits; second, exploring the provision of appropriate RMB banking services for trade and other current account transactions between Hong Kong and the Mainland; and third, exploring the feasibility of establishing a RMB debt issuance mechanism in Hong Kong.

Further to the announcement by the Chief Executive in his Policy Address on October 12 that the Central People's Government has in principle agreed to extend the scope of RMB business in Hong Kong, the People's Bank of China announced on November 1 details of the newly expanded areas of RMB business. They include raising the exchange limit between the renminbi and the Hong Kong dollar, lifting the RMB remittance limit imposed on Hong Kong residents, relaxing RMB settlement to designated merchants in more sectors, permitting designated merchants in Hong Kong to open RMB cash deposits accounts and exchange RMB deposits one-way into Hong Kong dollars, and allowing Hong Kong residents to issue RMB cheques for a limited amount for consumer spending within Guangdong Province.

How beneficial is Hong Kong Disneyland to the SAR in real terms? Do you foresee the possibility of a public offering of all or part of the government's stake further down the line?

Hong Kong Disneyland will attract millions of tourists a year, boost the local economy, reposition Hong Kong as a premier family tourist destination and enhance Hong Kong's international image. The net economic benefit – in terms of additional value added or income over cost – is estimated at HK\$148 billion (about £11 billion) over 40 years. The Hong Kong Disneyland project has already created many job opportunities. Construction of the theme park and other infrastructure provided more than 11,000 jobs. Another 18,400 jobs have been created on its opening.

We would not rule out the possibility of divesting all

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or part of the government's stake in Hong Kong Disneyland in future, but the most important task now is to ensure the success of the project.

How successful has Hong Kong been in maintaining its status as the world's busiest port? Are you confident that it can continue to compete effectively against its lower-cost Mainland rivals?

It is our policy objective to strengthen Hong Kong's position as a preferred regional hub port and logistics centre and to maintain our competitiveness in the face of the ever-changing economic environment and growing competition.

The government has been in discussion with the Guangdong authorities on measures to enhance the efficiency of cross-boundary freight flow between our ports and our cargo source. Examples of recent progress include the relaxation of rules governing cross-boundary container trucks and improvement in inland customs services at our border control points. All these measures will enhance the efficiency of cross-boundary trucking and lower haulage costs.

The government has also recently proposed a number of measures to enhance the competitiveness of the port including streamlining of procedures for river trade vessels through introduction of a multiple entry permit; lowering of anchorage dues, port facilities and light dues; and a six month fee waiver for ships continually registered under the Hong Kong Shipping Register. All these measures will be implemented once the necessary legislative procedures are completed.

What financial benefits can Hong Kong expect to reap from the proposed bridge to Macau and Zhuhai? What are the longer-term, strategic implications of such a project?

The Hong Kong-Zhuhai-Macau Bridge (HZMB) plays a strategic role in enhancing cooperation and synergy within the Pearl River Delta (PRD). At present, all our road-based transport links with the Mainland connect Hong Kong to the east bank of the PRD. There is an obvious missing direct link between Hong Kong and the west bank. Traffic between Hong Kong and the Pearl River West has to make a long detour via the Humen Bridge which is already approaching saturation. The HZMB is therefore a long-awaited direct link to connect the two places.

The HZMB would reduce the distance and travelling time between Hong Kong and, say, Zhuhai by some 50 per cent and 70 per cent respectively. With the HZMB, it would take less than 30 minutes to travel between the two cities. The western PRD will become significantly more attractive to Hong Kong and international investors, thus vastly expanding Hong Kong's hinterland.

The Mainland's accession to the World Trade Organisation and the implementation of CEPA have opened up immense investment opportunities. To date, the level of economic activity in the PRD west bank still lags behind that of the east bank, and the labour and land costs there are lower. We expect to see a considerably more rapid development in the west bank in the years ahead. A more direct land transport link with the west bank would enable Hong Kong to tap the potential of the area, capitalise on its lower land and labour cost, and provide an opportunity for enterprises in Hong Kong to invest and expand. In addition, the HZMB would provide a more direct route between Hong Kong and the inner provinces in the southwest of the Mainland.

The HZMB would also bring new cargo sources to our port and to the Hong Kong International Airport and open up a potentially prime source of passengers for the latter. It would also enable the airport to develop multi-modal transport links with the Mainland, in particular the west of the PRD, to enhance its passenger and cargo link functions.

Furthermore, the HZMB would enable Hong Kong, Zhuhai and Macau to pool together their tourism resources, such as Disneyland in Hong Kong, the gaming industry in Macau and the leisure resorts in Zhuhai, to promote regional tourism and thereby enhance the region's competitiveness.

What effect will developments such as the AsiaWorld-Expo site in North Lantau have on the hitherto-unspoilt south side of the Island? Will its status as the "green lungs" of Hong Kong be preserved?

The planning vision for Lantau is to promote sustainable development by balancing development and conservation needs. In late 2004, we prepared a Concept Plan for Lantau to provide fresh impetus for Hong Kong's economic development and to maintain a balance in conservation of the environment. While the AsiaWorld-Expo and other proposed infrastructure such as the Hong Kong - Zhuhai - Macau Bridge and Lantau Logistics Park would be located in North Lantau, South Lantau would primarily be designated for nature conservation and sustainable recreational and leisure uses. So yes, the existing natural and rural character of South Lantau will be preserved.

China recently replaced the renminbi's peg to the US dollar with a basket of currencies. Under what circumstances would you consider revaluing the Hong Kong dollar?

The Linked Exchange Rate system has served Hong Kong well for more than 21 years and has been the anchor of our financial and economic stability. We have no intention whatsoever of changing it. **F**