



# Hong Kong's Financial Markets: Positioning for the 21st Century

by

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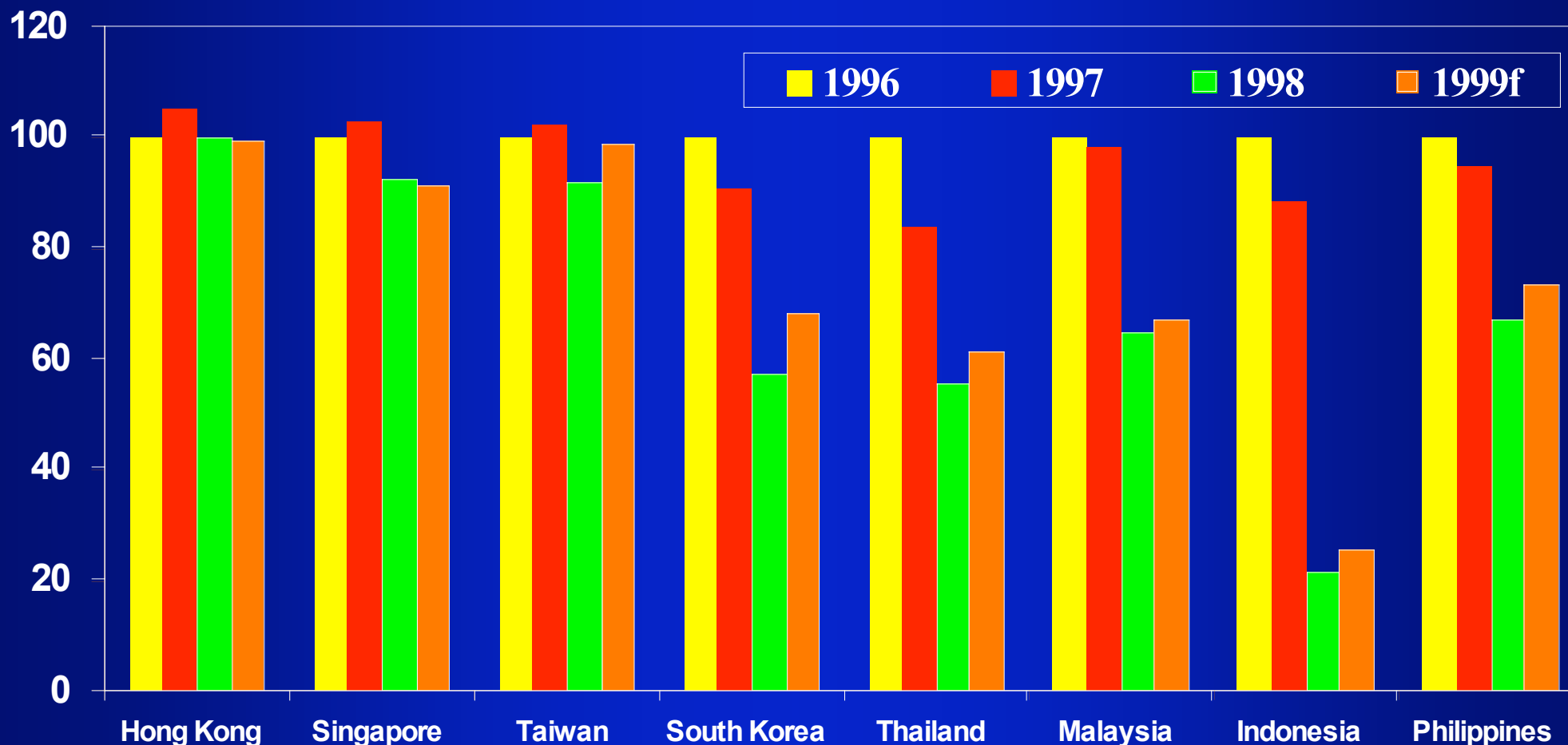
# Asian crisis - growth slowed, but not as bad in USD terms

## Real GDP Growth Rate (%)

	IN LOCAL CURRENCY			IN USD
	1997	1998	1999*	1999 over 1997
<b>Hong Kong</b>	<b>5.3</b>	<b>-5.1</b>	<b>-0.5</b>	<b>-5.7</b>
<b>Singapore</b>	<b>8.0</b>	<b>1.5</b>	<b>1.0</b>	<b>-10.9</b>
Taiwan	6.8	4.8	4.9	-3.2
S. Korea	5.0	-5.8	2.0	-24.9
Thailand	-1.3	-9.4	0.0	-27.0
Malaysia	7.7	-6.7	0.7	-31.7
Indonesia	4.7	-14.5	0.0	-71.1
Philippines	5.2	-0.5	2.4	-22.6

Remarks: \* ADB forecast; exchange rates for 1999 are the averages of Jan-Jul 1999

# Hong Kong's GDP (in USD terms) remains at pre-crisis level (1996=100)



Remarks: 1999 are ADB forecasts; exchange rates for 1999 are the averages of Jan-Jul 1999



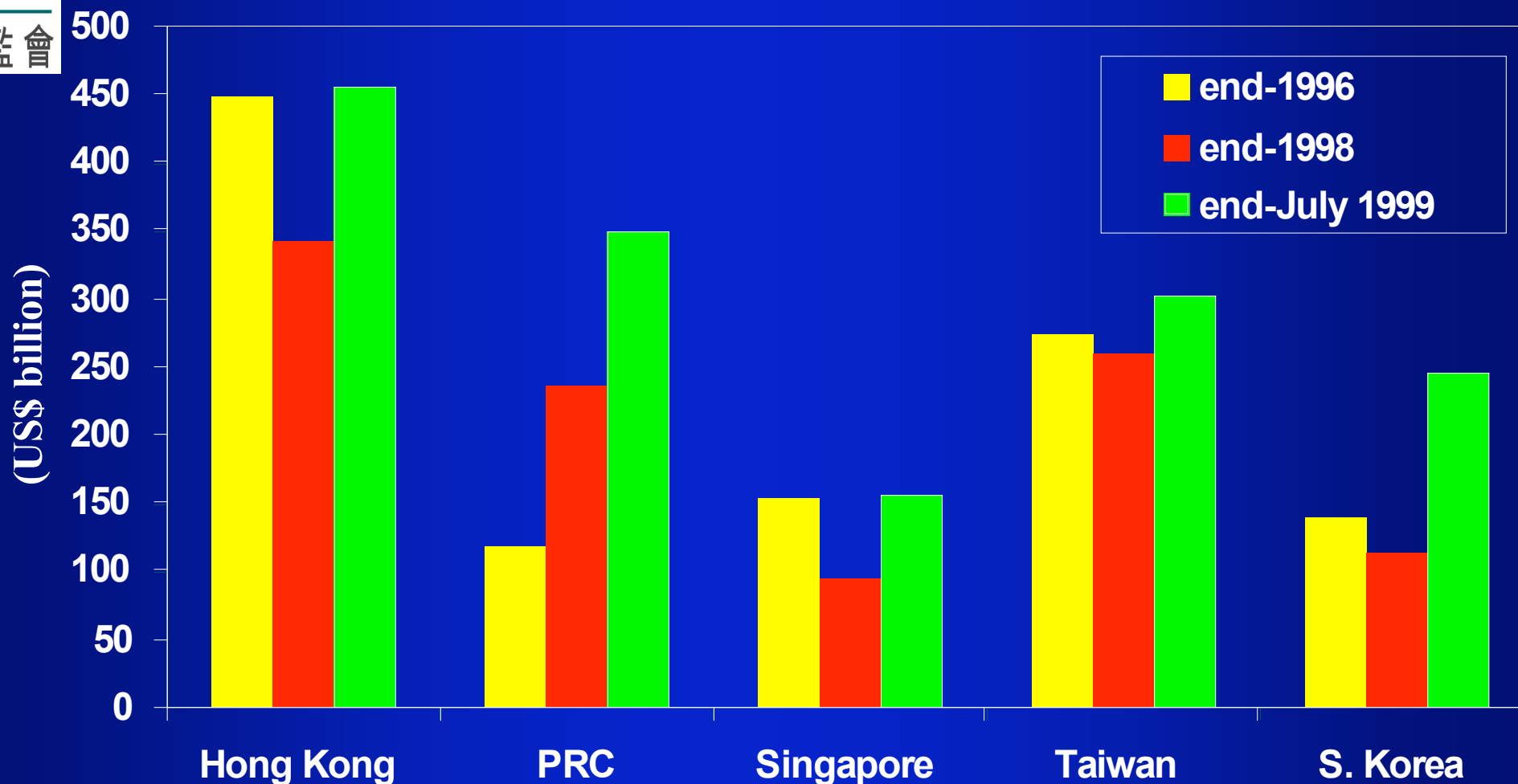
# Market Turnover Stabilizing and Rebounding (US\$ billion)



Sources : FIBV & various stock exchanges



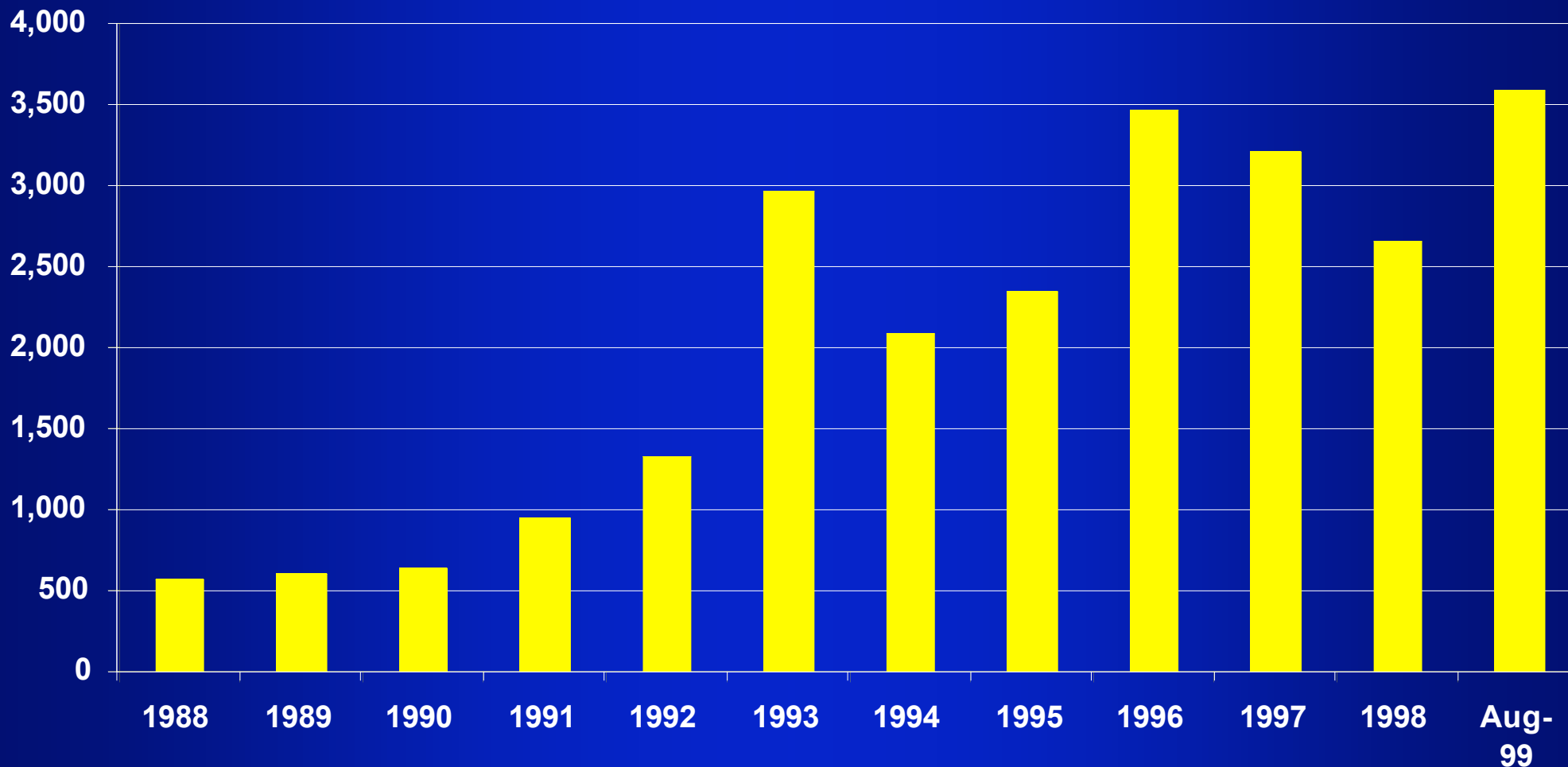
# Market capitalisation back to pre-crisis level



Sources : FIBV & various stock exchanges



# SEHK - Market Capitalisation (as of period end, HK\$ billion)





# Online Trading in US

- ◆ Internet financial transactions cost US1¢ vs. paper-based transactions cost of US\$1
- ◆ E-trading did not exist before 1995
- ◆ 4.4 million online investors as of end-1998
- ◆ Online trading as % of retail trading:

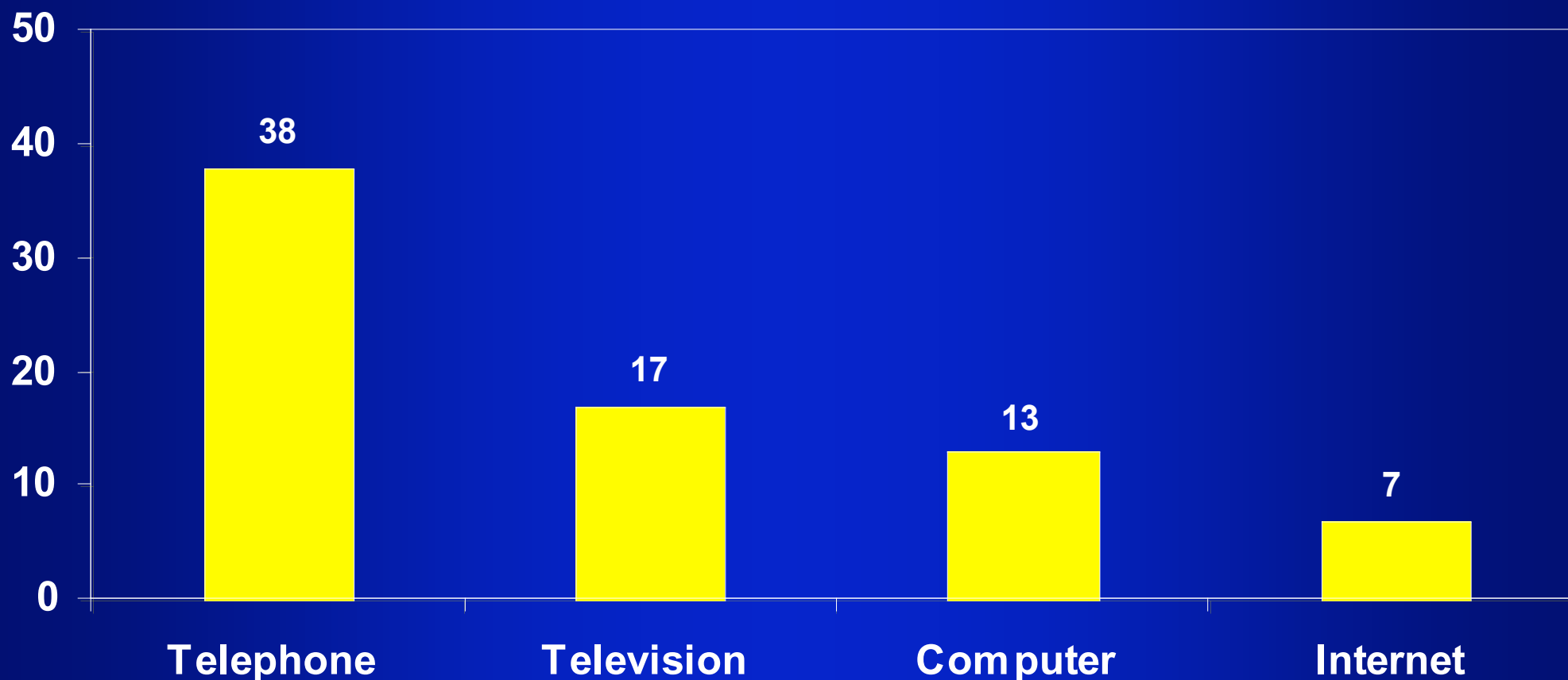
1997	1998 H1	1998 H2
17%	22%	approx. 32%

- ◆ Participation of large brokerage house (e.g. Merrill Lynch) will further boost online trading



# Number of years taken to penetrate into US families

◆ Every revolution comes in a shorter time span



Source : US Internet Forum



# Online Trading in Asia

## ◆ South Korea

- online trading turnover at US\$32 bn in Jun 99 was the second largest in the world
- as of end-Jul 99, there were some 1 million online accounts

## ◆ Taiwan

- online trading turnover surged almost 50 times from US\$31mn in Jan 99 to US\$1.5 bn in Apr 99 (market turnover rose 2.5 times over the same period)
- as of end-Jun 99, there were 40 companies serving some 130,000 online accounts

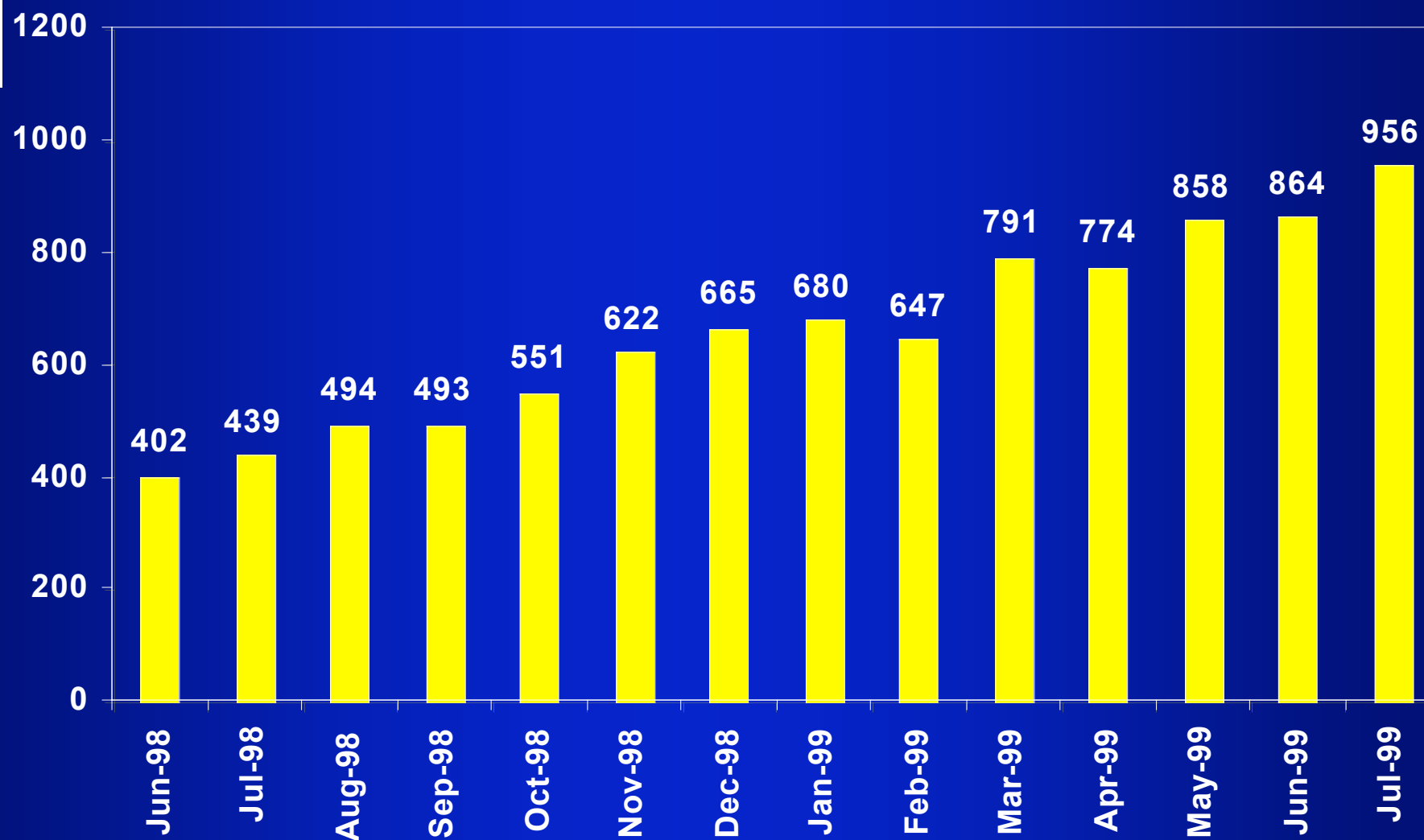


# Online Trading in Hong Kong

- ◆ Possible when the AMS/3 is launched in the 2Q of 2000
- ◆ Great potential in the future because :
  - market capitalization of Hong Kong at US\$462 bn as of end-Aug 99 is the second largest in Asia after Japan
  - liquid cash market with active turnover
  - sophisticated derivatives for hedging
  - internet is common and getting more common in Hong Kong (internet usage in Jul 99 was 956 million minutes, more than twice the usage in Jul 98)
  - gateway to China



# Internet Usage in Hong Kong (million minutes)



Source : Office of the Telecommunications Authority



# Major Fund Raising Centre for China

- ◆ 43 H-share Chinese enterprises listed on the SEHK as of end-August 1999
- ◆ 41 red-chip companies listed on the SEHK as of end-August 1999
- ◆ Total capital raised since 1993 = US\$25 bn
- ◆ Opportunities for Hong Kong
  - Reform of state-owned enterprises
  - Listing of China's Global Bonds
  - Growth Enterprise Market (GEM)

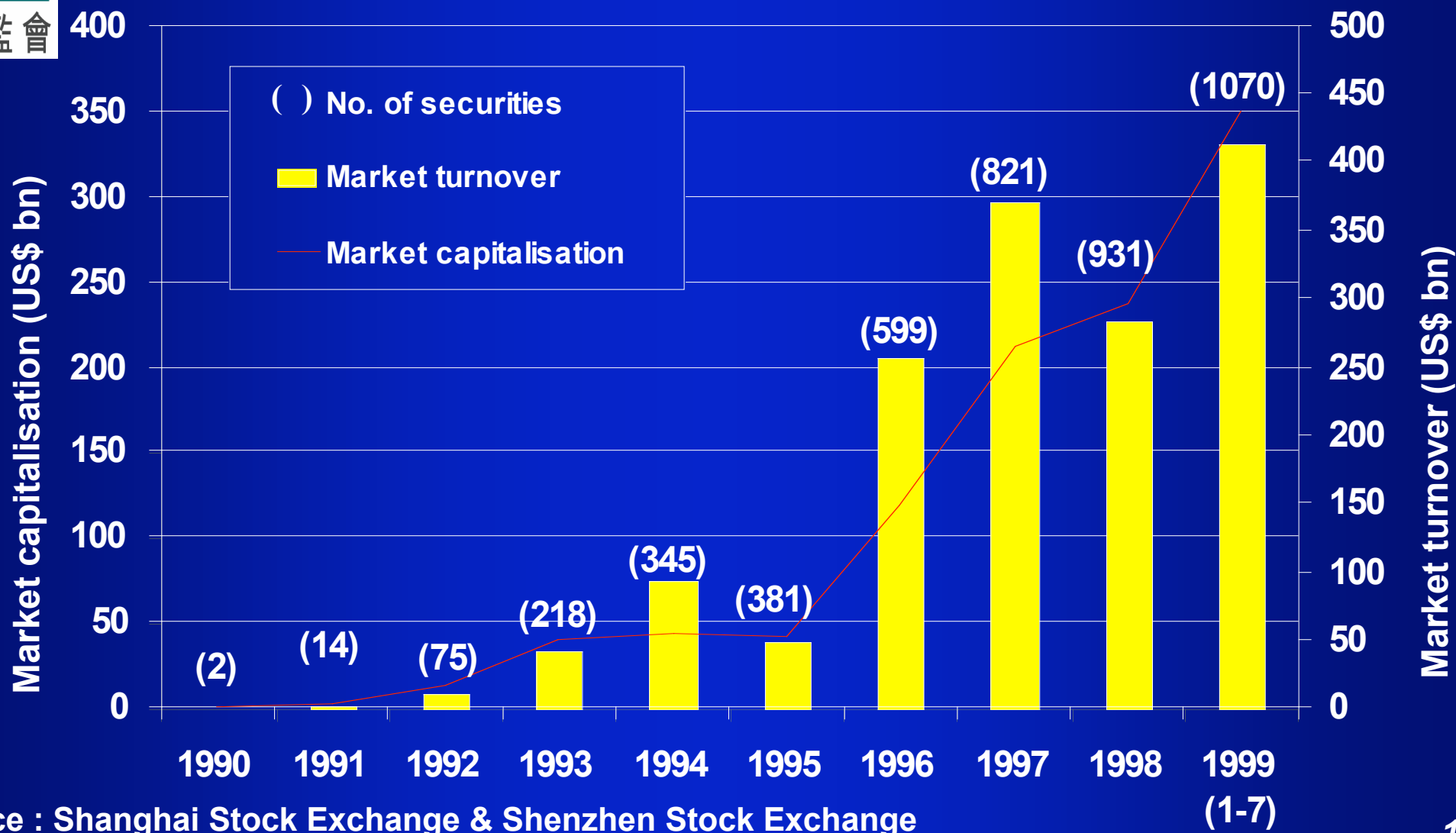


# Potential of Chinese Securities Market

- ◆ Two markets - Shanghai & Shenzhen
- ◆ Stock Market capitalization at US\$349 bn at end-Jul 99 was about 30% of GDP, and the market is growing fast
- ◆ Policy to use stock market to reform state-owned enterprises
- ◆ 38 million individual investors
- ◆ RMB not yet convertible, so Hong Kong securities market major window into China



# Mainland Stock Markets - *tremendous growth*



Source : Shanghai Stock Exchange & Shenzhen Stock Exchange

(1-7)



## Preparing for the e-Economy

- ◆ Intermediaries need to re-evaluate their own roles in a CYBER world
- ◆ Global investors in a hi-tech world view different financial markets as one single market
- ◆ Provision of an one-stop high value added financial supermarket (i.e. the linking up of different financial markets)
- ◆ Provision of an efficient and low risk settlement platform (i.e. the linking up of trading and settlement systems)
- ◆ Provision of a 24-hour trading environment (i.e. the linking up of different financial centres)



# Three-Prong Reform Programme for the Securities and Futures Market

- ◆ **Upgrading of technology**
  - design of open, secure, scripless and single clearing infrastructure for securities, futures and options market
  
- ◆ **Regulatory reform**
  - new Composite Securities and Futures Bill by the end of 1999
  
- ◆ **Structural reform**
  - Demutualisation, merger and listing of Exchanges & Clearing Houses



# Upgrading Technology to Compete

- ◆ **Must upgrade technology & productivity through DvP and PvP**
  
- ◆ **Unified clearing improves**
  - **overall risk management**
  - **cross margining efficiencies**
  - **operational efficiency through STP (Straight Through Processing)**



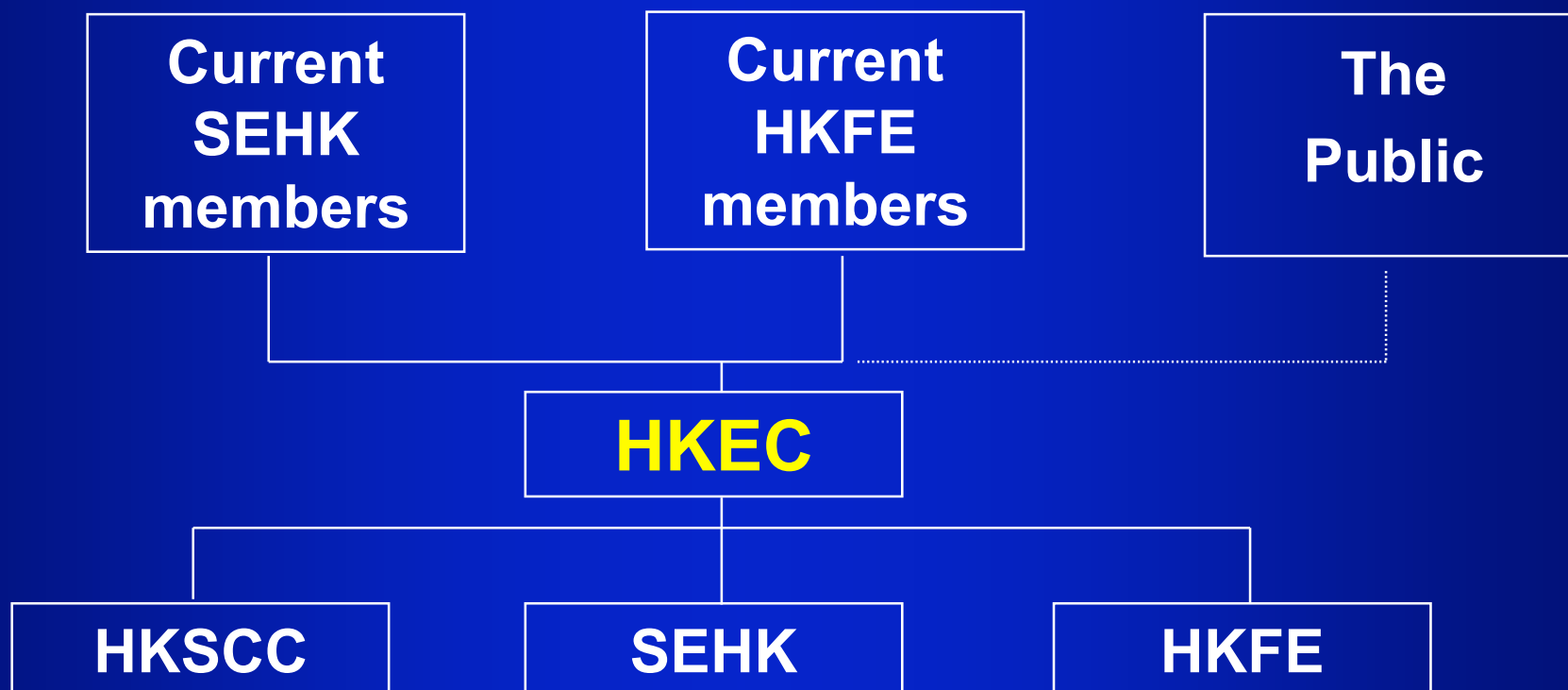
# Regulatory Reform

- ◆ **Consolidate 9 existing securities legislation & update to best international standards**
  - **to provide sufficient protection to investors**
  - **to be technology and innovation friendly**
  - **to be disclosure based regulation**



# Demutualisation and Merger of the Exchanges and Clearing Houses - Organisation Chart

- ◆ Demutualise, merge and list the exchanges and clearing houses under a new holding company, the Hong Kong Exchanges and Clearing Limited (HKEC):





## **Growth Enterprise Market (GEM)**

- ◆ **New Disclosure-based Board for fast growth companies to raise capital**
- ◆ **Great interest from Mainland private enterprises + Taiwan corporations to tap external capital**
- ◆ **Broaden investor choice and deepen market**
- ◆ **To be launched in October 1999**



# Strategy to improve competition through Privatization

- ◆ Telecom monopoly abolished and television/telecommunications open to competition
- ◆ Mass Transit Railway Corporation to be privatized
- ◆ Public housing management being privatized and water supply service under consideration
- ◆ Interest rate rules to be removed
- ◆ Utilities subject to market discipline and price competition



**End of Presentation**