



Hong Kong and the New Economy

New Century Forum Luncheon Meeting

Andrew Sheng
Chairman

Securities and Futures Commission
9 October 1999



1999 Competitiveness Rankings

<u>Rank</u>	<u>Country</u>	<u>Rank</u>	<u>Country</u>
1	Singapore	11	Finland
2	United States	12	Australia
3	HK SAR	13	New Zealand
4	Taiwan	14	Japan
5	Canada	15	Norway
6	Switzerland	16	Malaysia
7	Luxembourg	17	Denmark
8	United Kingdom	18	Iceland
9	Netherlands	19	Sweden
10	Ireland	20	Austria

◆Asian among top 20 : 7 / 20

Source: *The Global Competitiveness Report 1999*, World Economic Forum



Growth Projections, 2000-2008

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1	Singapore	11	Indonesia
2	Taiwan	12	Switzerland
3	Malaysia	13	Netherlands
4	HK SAR	14	Philippines
5	United States	15	Australia
6	Canada	16	Vietnam
7	Ireland	17	China
8	United Kingdom	18	Chile
9	New Zealand	19	Japan
10	Finland	20	Jordon

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Source: *The Global Competitiveness Report 1999*, World Economic Forum



Competing in Global Markets

- ◆ Competition and Productivity comes from
 - ❖ Improvements in computer and telecommunications technology
 - ❖ Revolution in management attitudes, incentives and processes
- ◆ Internet technology undercuts intermediation and traditional franchises
- ◆ Consumer sophistication requires better quality products, services, content, convenience, immediacy and lower costs
- ◆ Co-operation through alliances

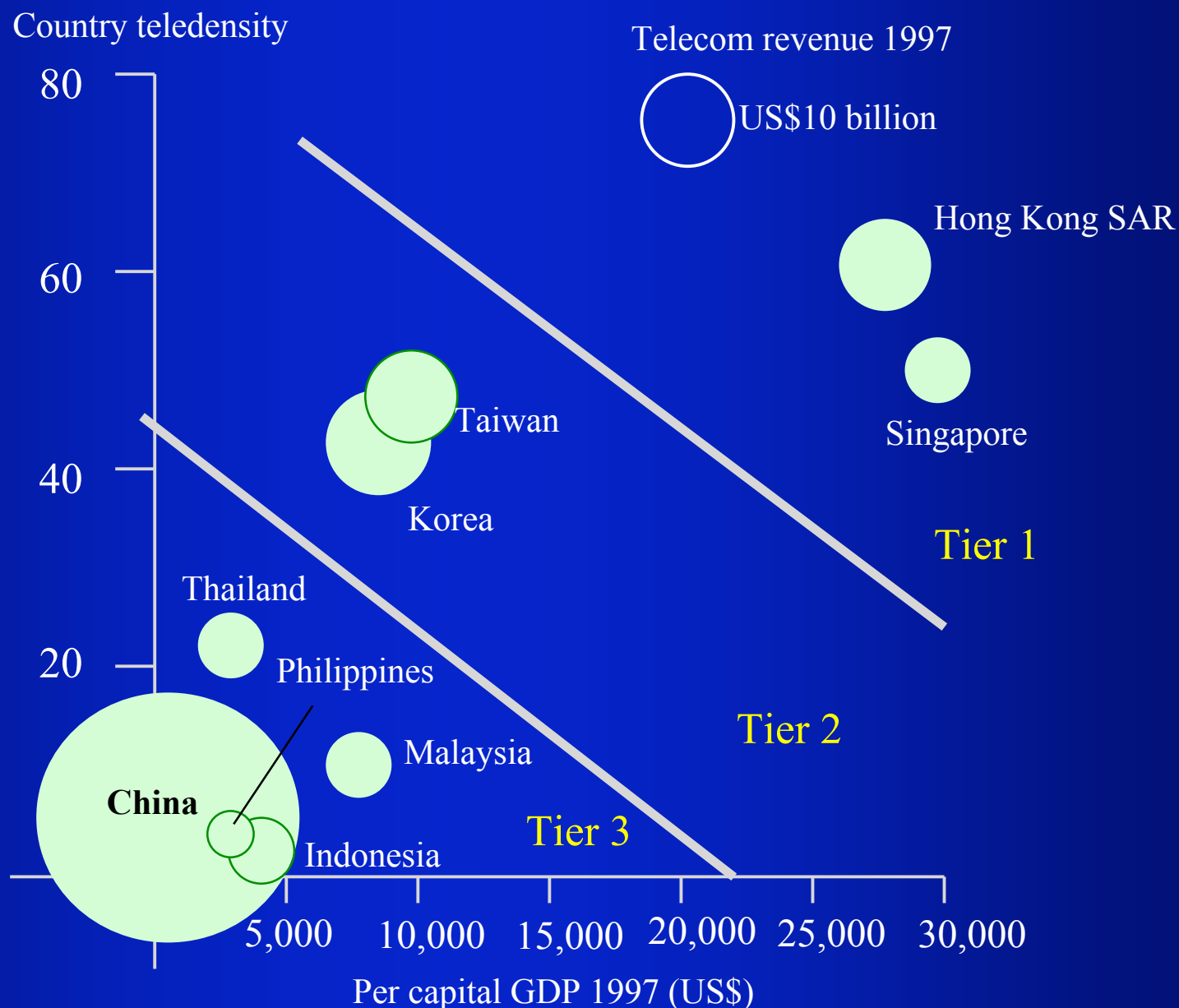


Preparing for the e-Economy

- ◆ 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)



Relative Development of Asian Telecom Markets, 1997

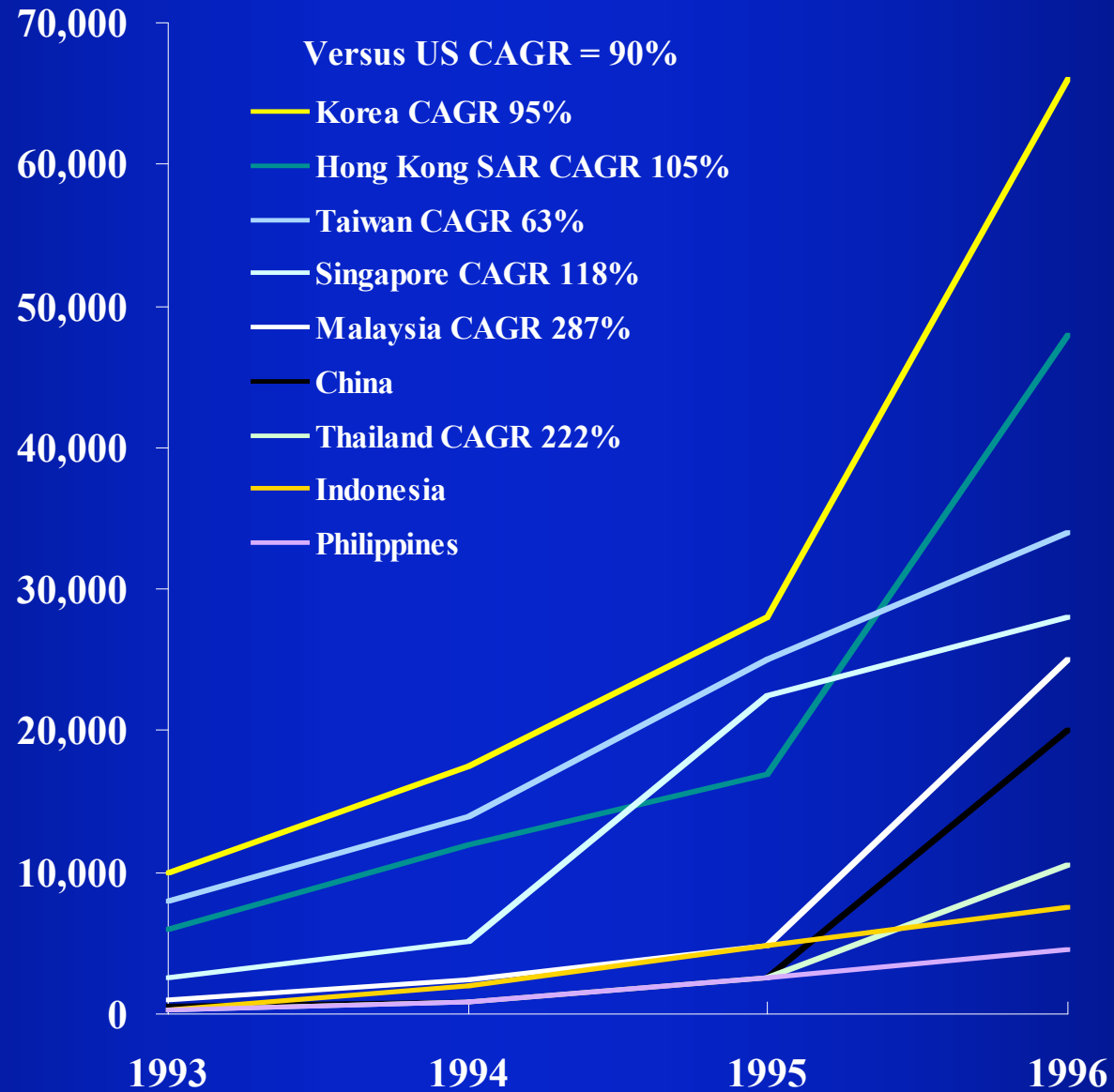


Source: EIU forecasts of 1997 GDP data; ITU teledensity data; industry sources



Growth in Internet Capability, 1993-96

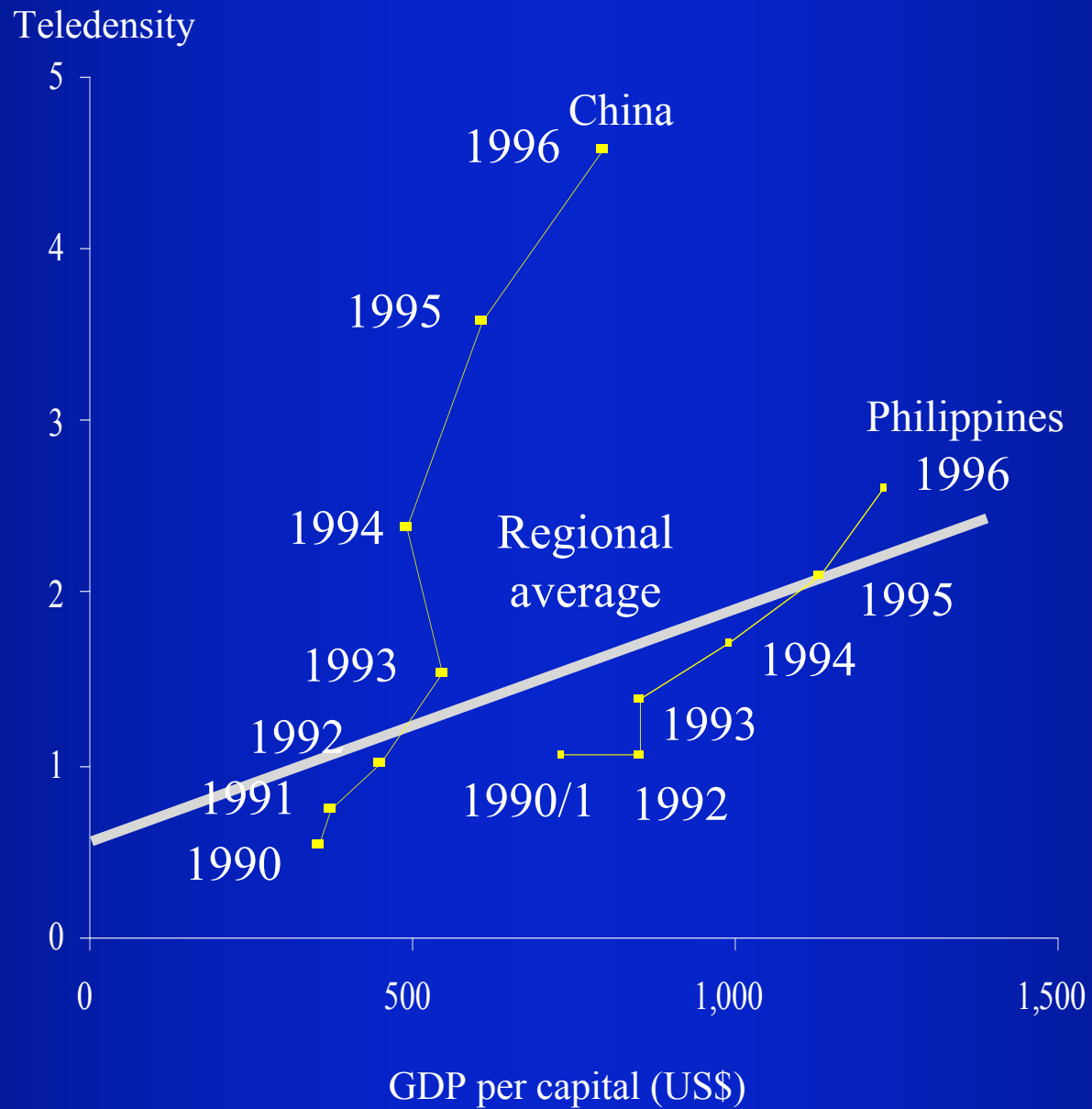
Internet host computers by region



Source: ITU



Growth in Teledensity, China and Philippines



Source: ITU



China Teledensity

	Internet user base (<u>million</u>)	PC base (<u>million</u>)
1997	0.9	8.2
1998	2.1	11.1
1999	6.7	14.0
2000	12.0	17.7
2001	17.3	22.6
2002	25.5	28.9
2003	33.6	37.3

Source : IDC

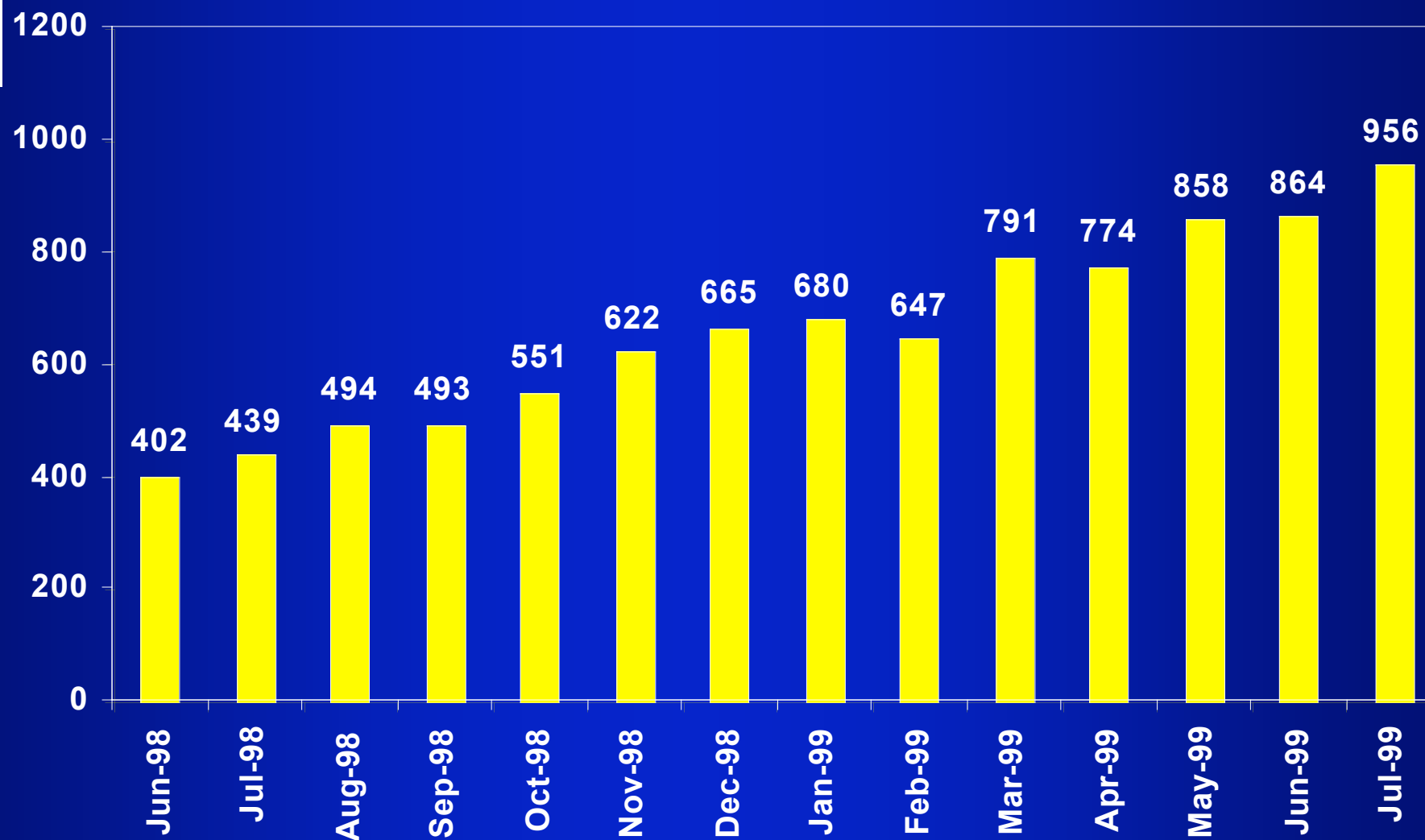


China Teledensity (2)

- ◆ Internet user base will exceed 33m, growing at an annual rate of nearly 60% over the next five years
- ◆ mobile phone usage grew by 2.34m subscribers in the first two months this year. By the end of June, total number of subscribers reached 33.1m
- ◆ fixed-line phone subscribers jumped to 145m by the end of June, nearly triple the number three years ago
- ◆ IT market, worth US\$9.24bn in 1998, is expected to grow by 24.3% in 1999 and 31.3% in 2000



Internet Usage in Hong Kong (million minutes)



Source : Office of the Telecommunications Authority



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 capitalisation 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



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)**

- ◆ **SCEFI report to be announced on 11 October**



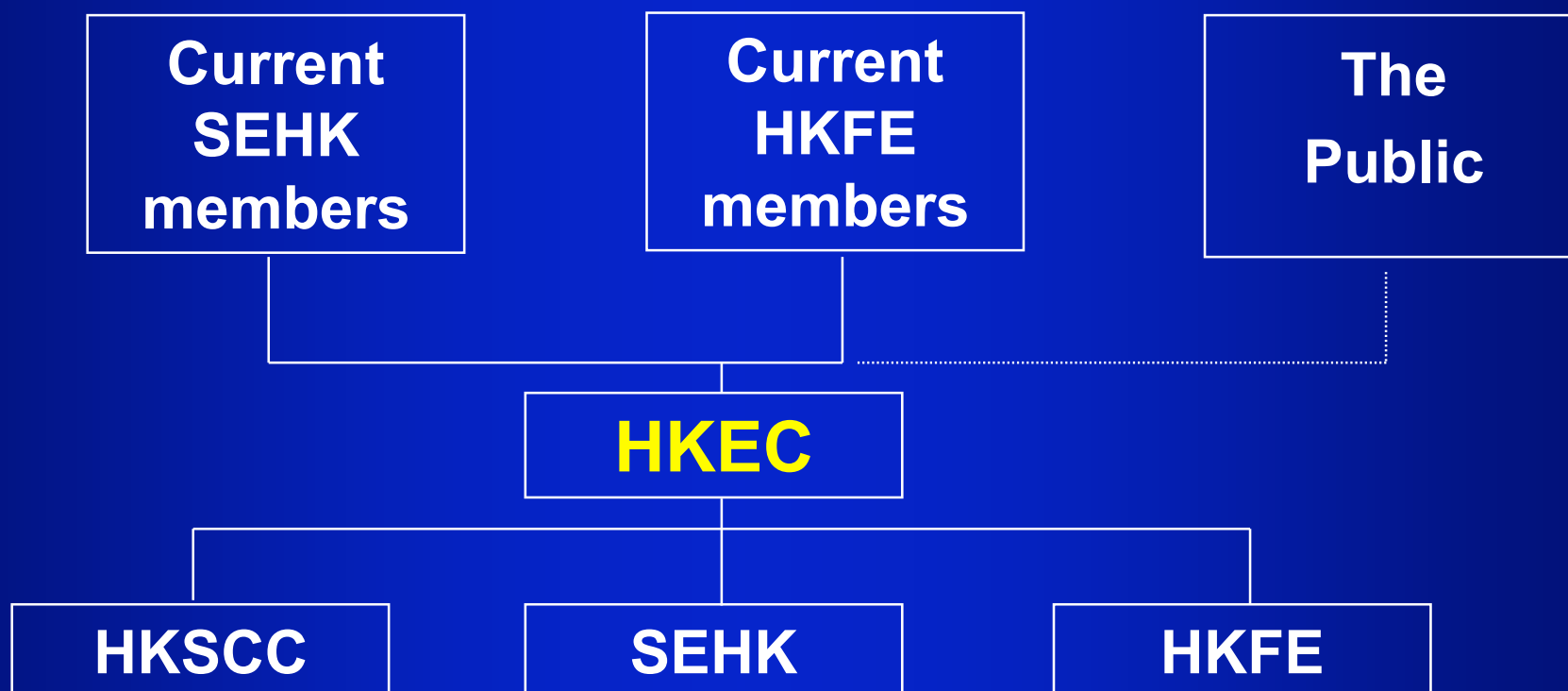
Regulatory Reform

- ◆ **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

- ◆ 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 November 1999



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Alice Rivlin:

Globalised domestic markets need

- ◆ Flexibility and adaptability of businesses, workers and communities
- ◆ Willingness of workers to learn new skills, take risks and move to new jobs and places
- ◆ Nimbleness, flexibility and risk taking on part of businesses
- ◆ Communities to be adaptable, diversify economic bases, attract new jobs and residents
- ◆ Governments to be imaginative to design transition assistance for workers and communities to change and adapt



Thank You