



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

by

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# Signs of Recovery in Hong Kong

- ◆ GDP picking up
- ◆ Property prices stabilizing
- ◆ Tourist arrivals rebounding + **Walt Disney to build a theme park**
- ◆ Overall trade surplus in 1998 and 1999H1
- ◆ Between end-1998 and 16 Nov 1999, HSI up 46.2%, signalling economic recovery
- ◆ Clear policies to improve competitiveness through privatization and reform
- ◆ **GDP forecast for 2000 - OECD at 4.0% and IMF at 2.4%**



# 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>5.0</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>5.0</b>	<b>-7.4</b>
Taiwan	6.8	4.8	5.5	-2.6
S. Korea	5.5	-5.8	8.0	-20.5
Thailand	-1.3	-9.4	3.0	-24.8
Malaysia	7.5	-7.5	2.0	-31.4
Indonesia	4.9	-13.7	2.0	-70.2
Philippines	5.2	-0.5	3.0	-22.1

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

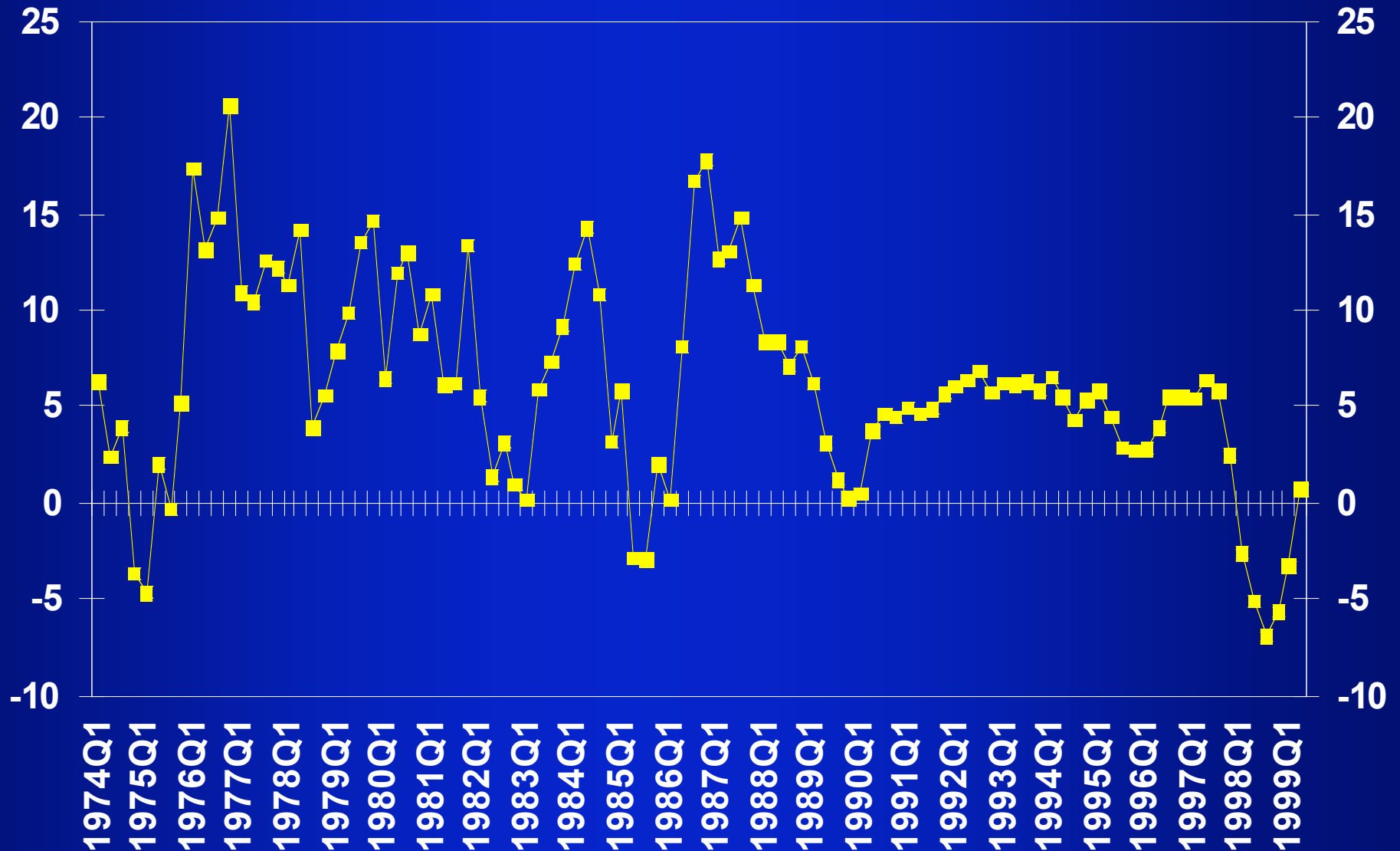


# Stock Market Performance

	Stock Market Indices		% change	
	end-Jun 97	16 Nov 99	end-Jun 97 to 16 Nov 99	end-Jun 97 to 16 Nov 99
			in local currency	in USD
<b>Hong Kong</b>	<b>15197</b>	<b>14690</b>	<b>-3.3</b>	<b>-3.6</b>
Singapore	1921	2239	16.5	-0.1
Taiwan	9030	7606	-15.8	-26.2
S. Korea	745	1008	35.2	1.9
Thailand	527	423	-19.7	-48.7
Malaysia	1077	720	-33.1	-55.6
Indonesia	725	642	-11.4	-69.3
Philippines	2809	1958	-30.3	-54.3
Australia	2726	3004	10.2	-6.1



# Real GDP Growth of Hong Kong (YoY %)

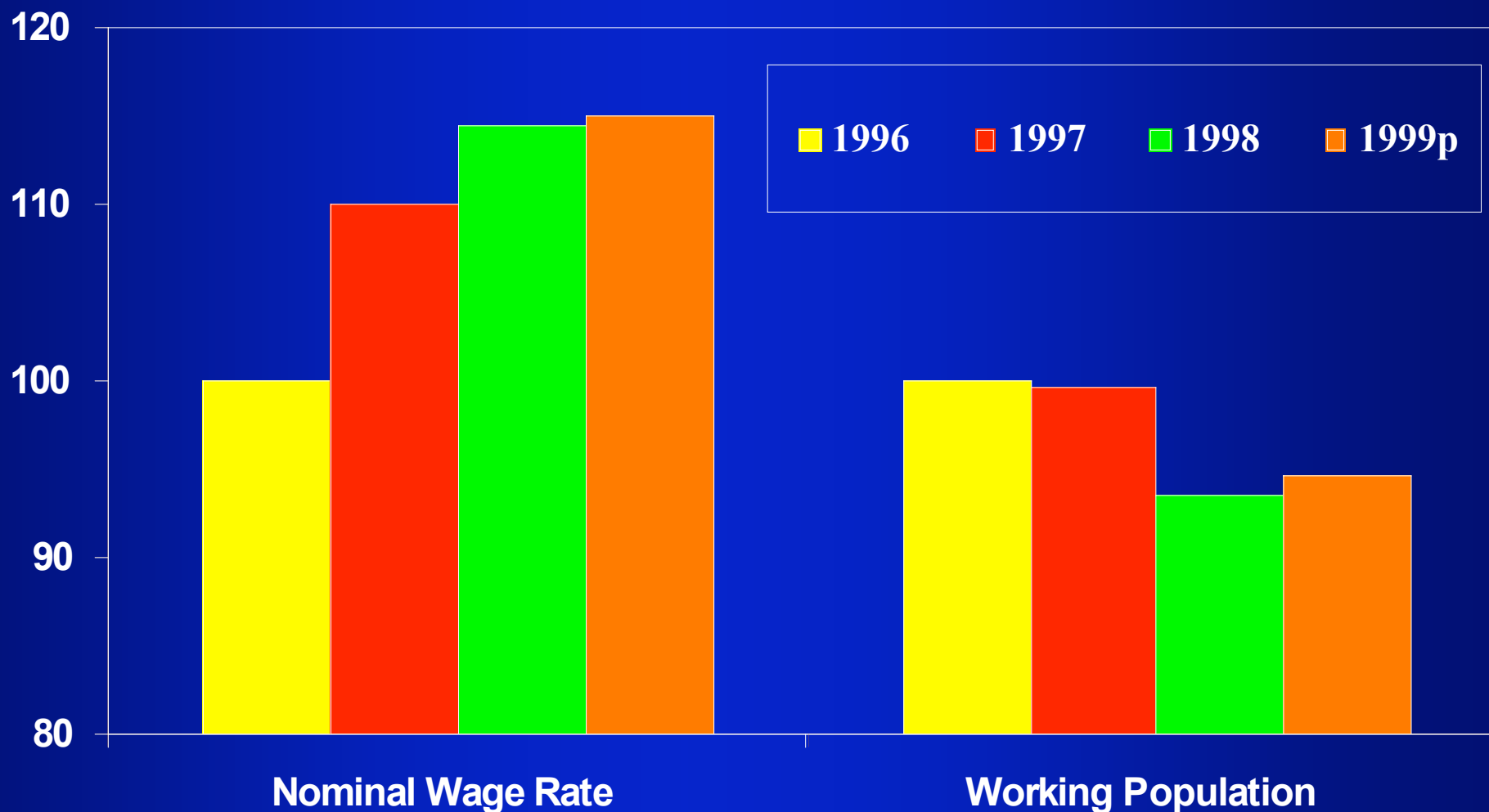




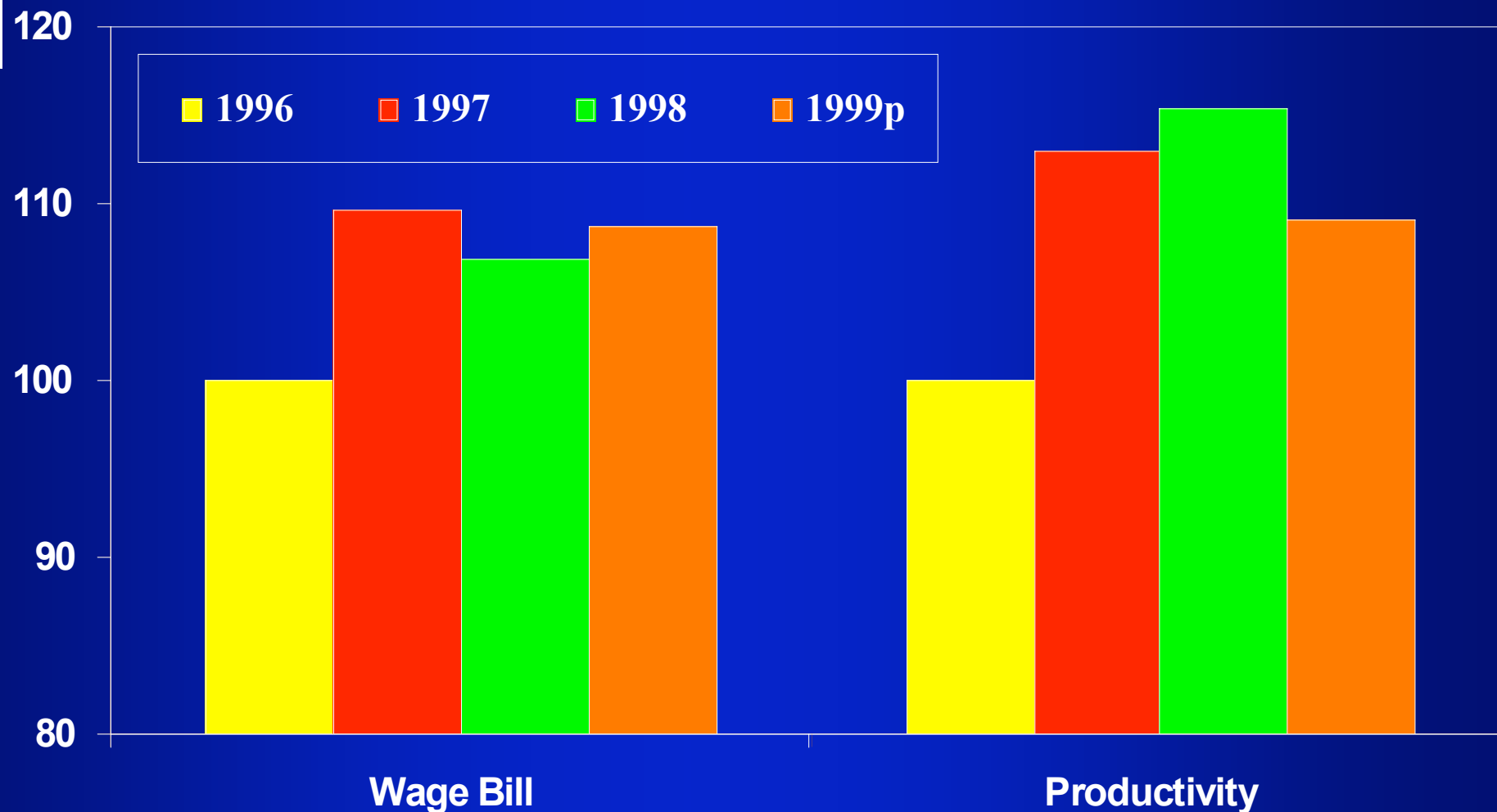
## Depreciation Since June 1997

	Exchange Rate Against USD		% change
	end Jun 1997	end Oct 1999	end Jun 97 to end Oct 1999
<b>Hong Kong</b>	<b>7.748</b>	<b>7.768</b>	<b>-0.3</b>
<b>Singapore</b>	<b>1.430</b>	<b>1.662</b>	<b>-14.0</b>
Taiwan	27.81	31.740	-12.4
S. Korea	888	1199.5	-26.0
Thailand	24.70	38.625	-36.1
Malaysia	2.525	3.7995	-33.5
Indonesia	2432	6825	-64.4
Philippines	26.38	40.15	-34.3
Australia	1.326	1.565	-15.3

# Adjustments in Headcount rather than in Wage Rate (1996=100)

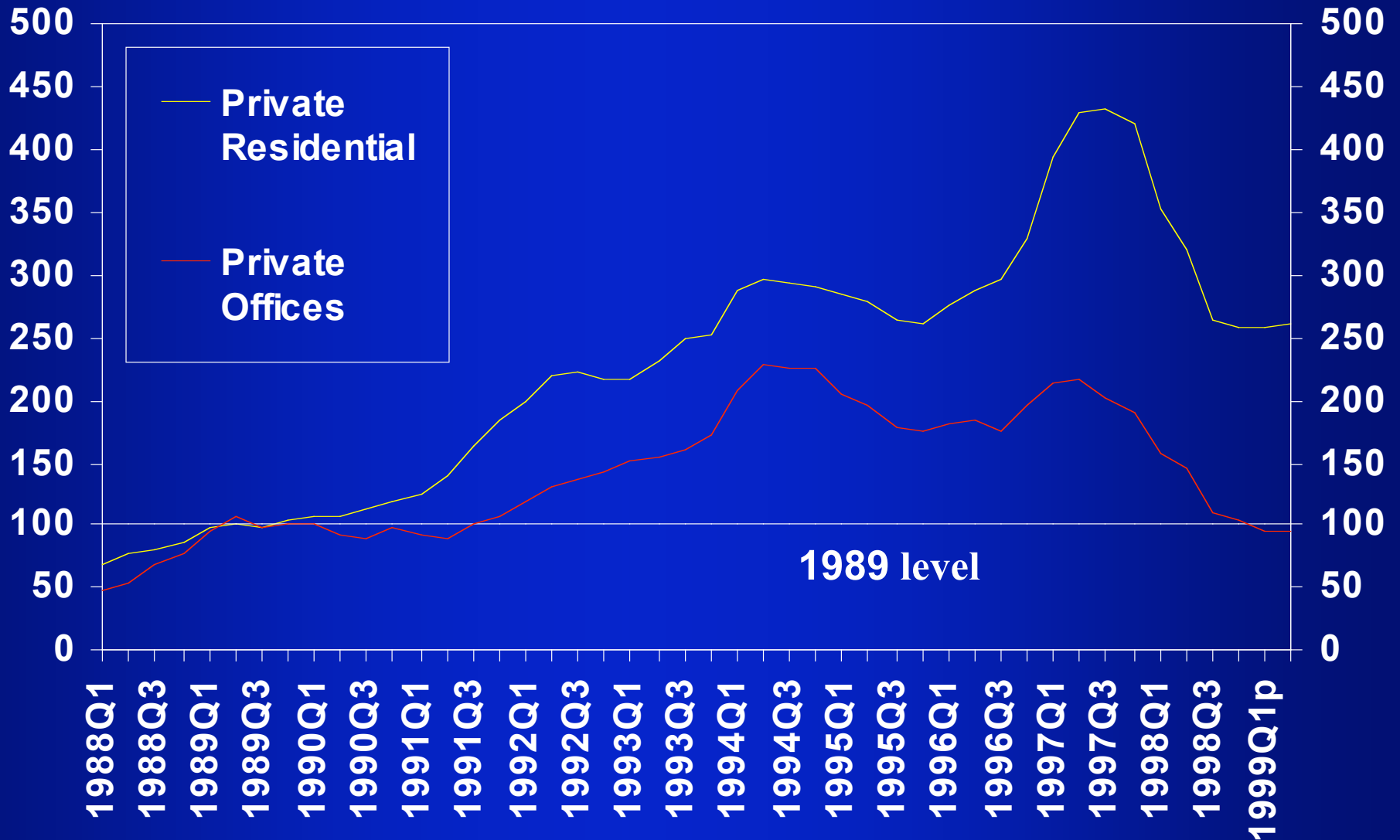


# Growth in Wage Bill in line with Productivity Gain (1996=100)



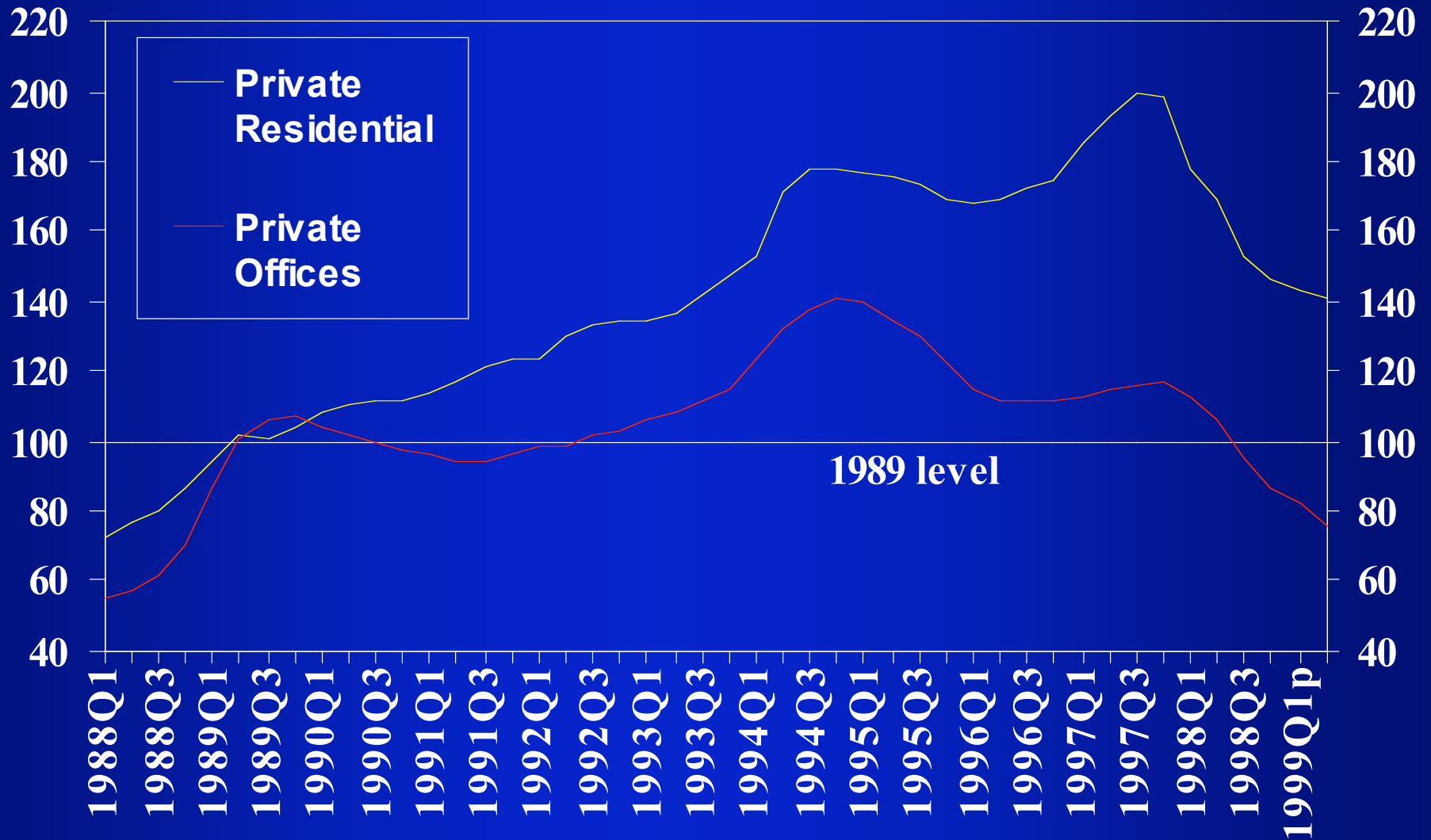
Remarks: 1999 figures are based on the data of the first half of the year

# Property Prices Adjusting (1989=100)



p = preliminary

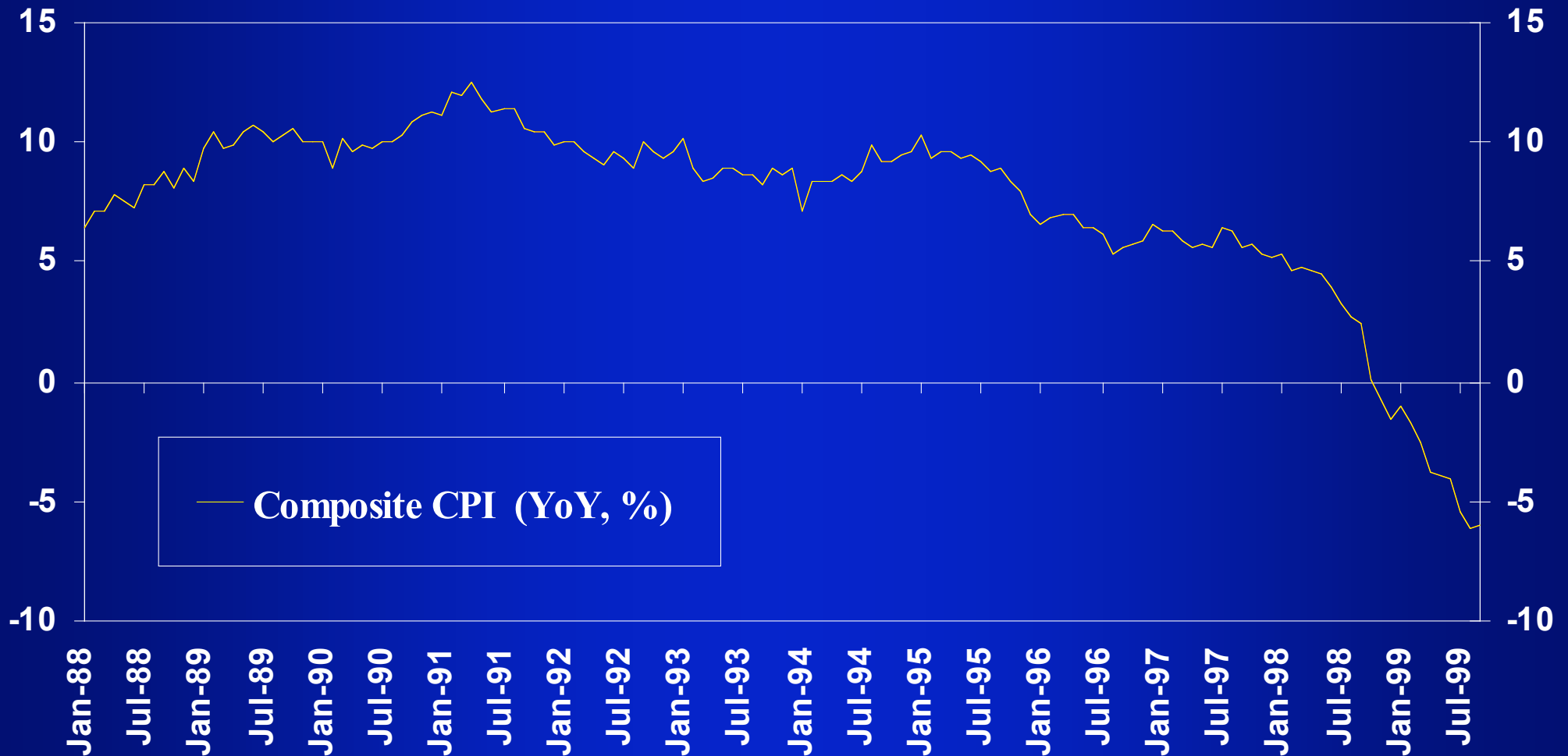
# Rentals Adjusting (1989=100)



p = preliminary



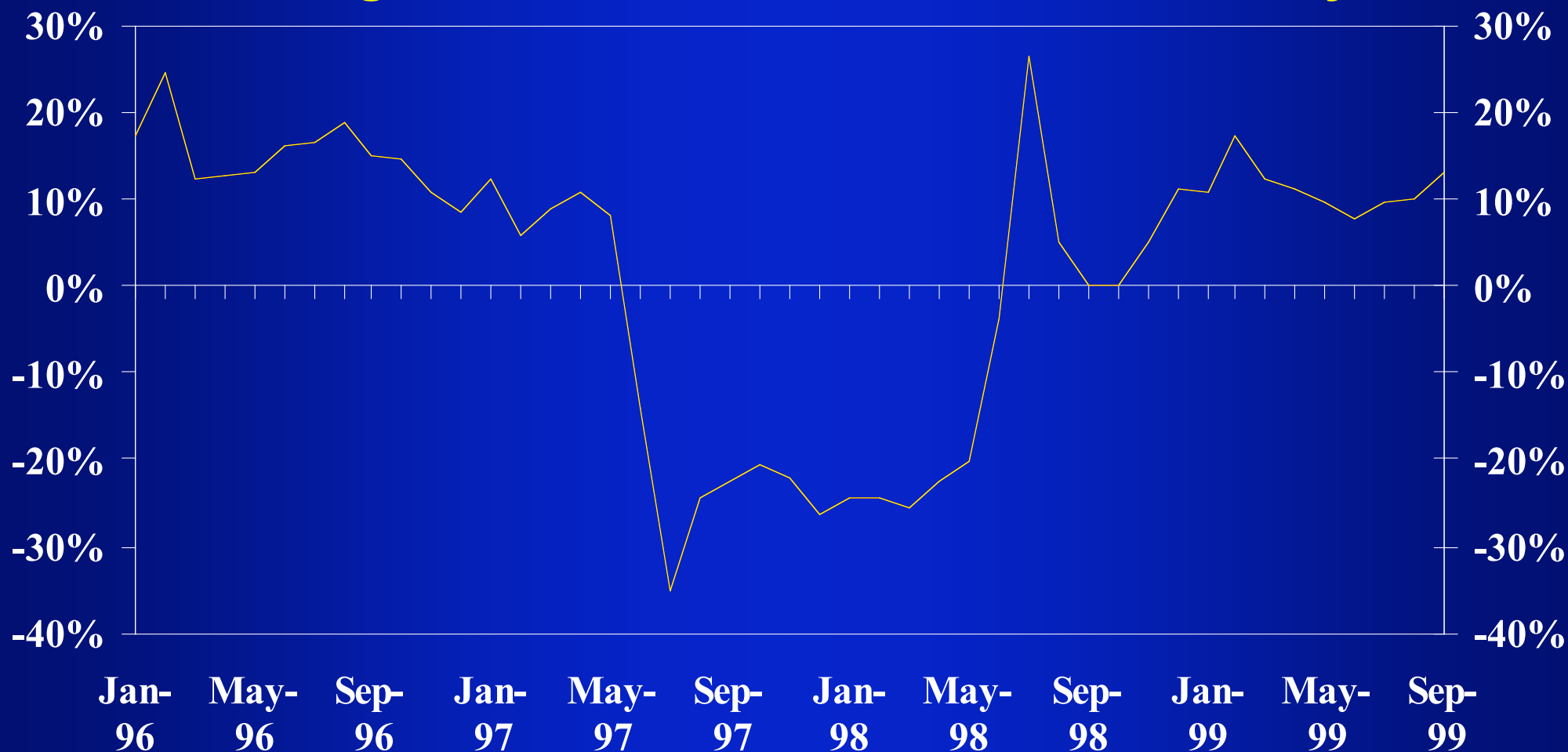
# Prices Adjusting Rapidly and Restoring Competitiveness



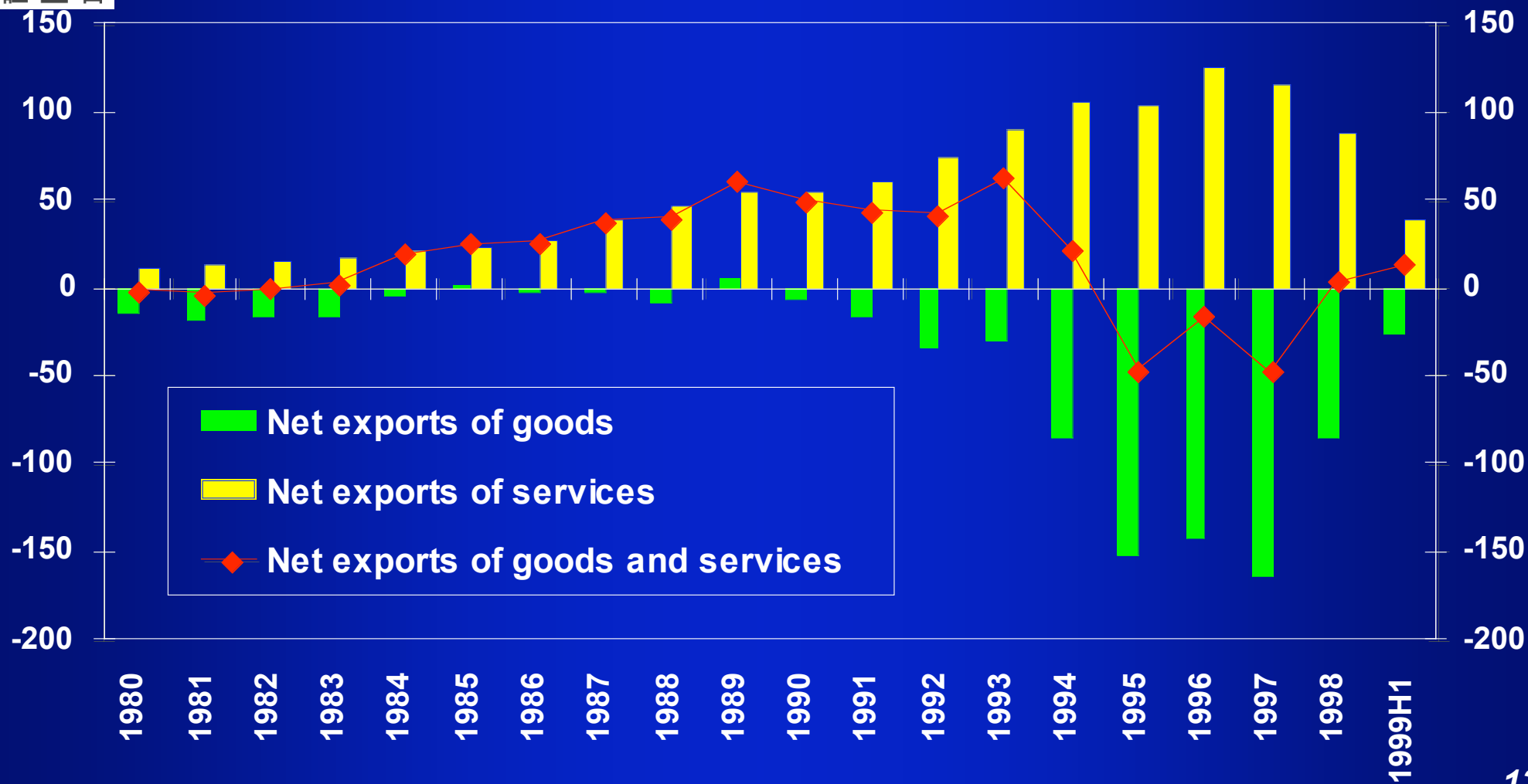


# Number of Visitor Arrivals (YoY %)

◆ Building a theme by **Walt Disney** in Hong Kong will further boost the tourist industry

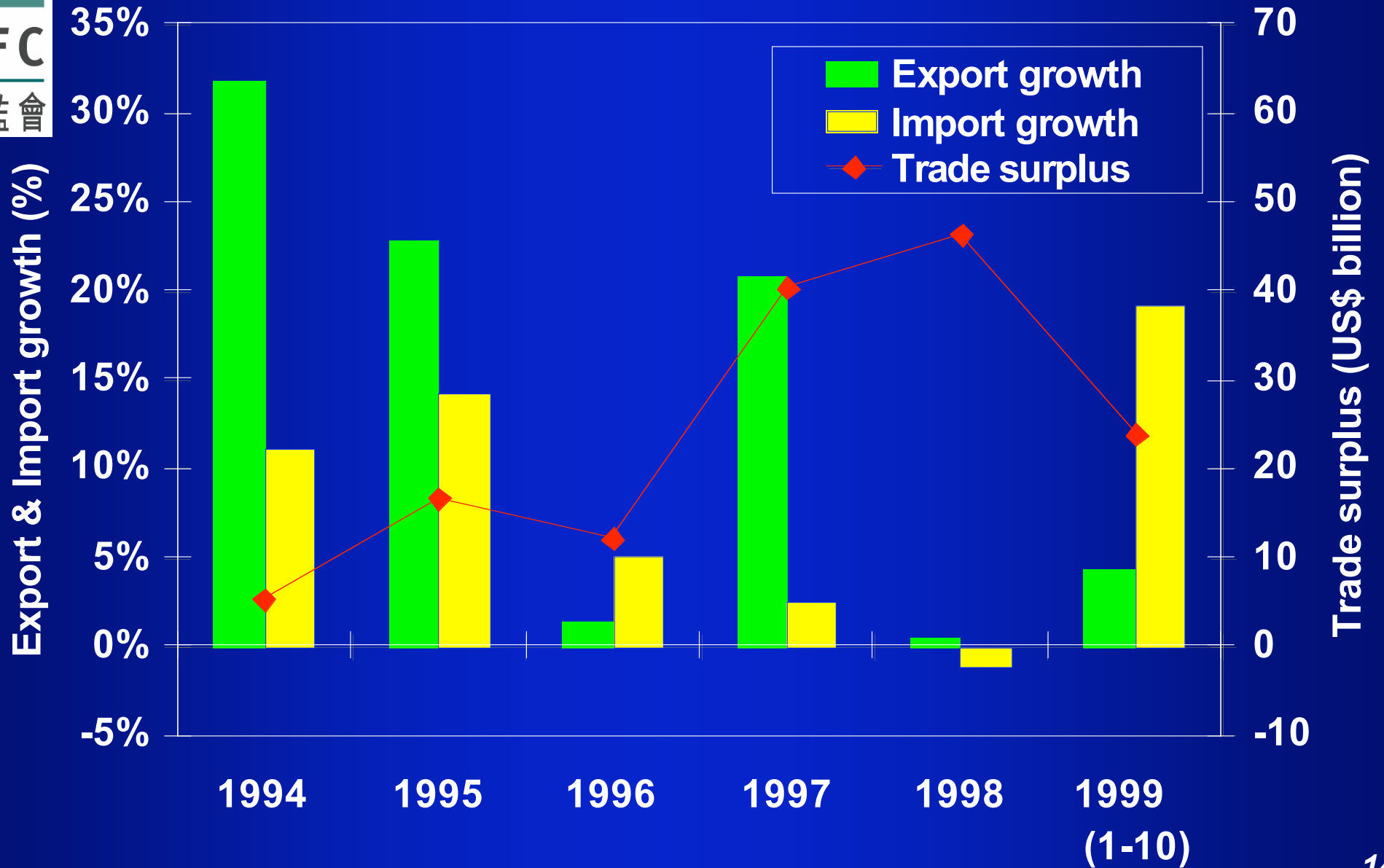


# Net Exports of Goods and Services (HK\$ billion)





# China's Exports are Rebounding





# Market Capitalization of the Stock Market of Hong Kong (US\$ billion)

	As of end-Oct 1999	Proposed Listings	
<b>Proposed Listings Completed</b>			
<b>TOTAL</b>	<b>461.7</b>	<b>53.0</b>	<b>514.7</b>
<i>Red-Chips + China Telecom (a)</i>	<i>59.5</i>	<i>15.6</i>	<i>75.1</i>
<i>H-shares (b)</i>	<i>5.5</i>	<i>21.0</i>	<i>26.5</i>
<b>China-related shares (a) + (b)</b>	<b>65.0</b>	<b>36.6</b>	<b>101.6</b>
<b>Non-China-related companies proposed to be listed (HKEXC)</b>			

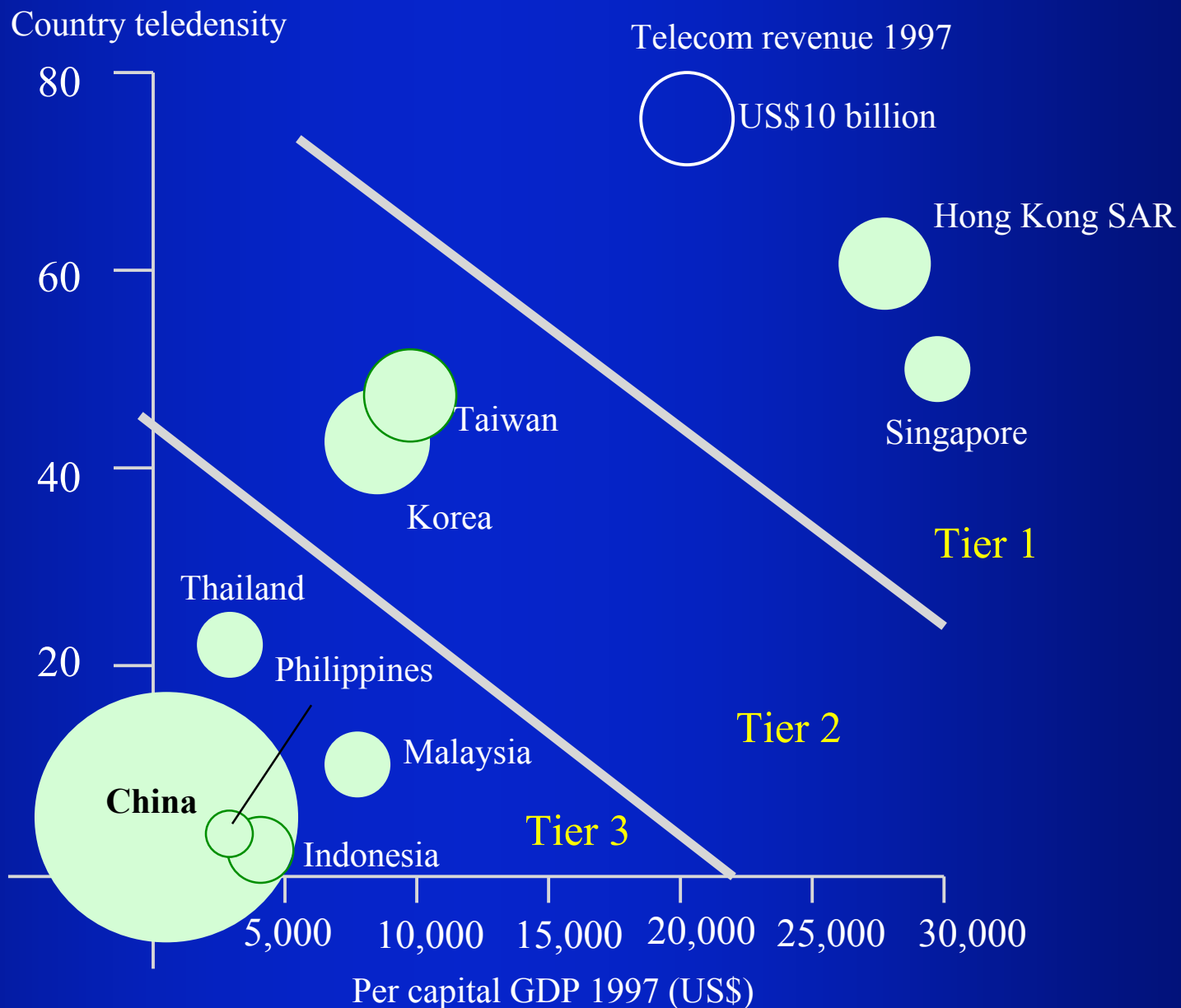


# Hong Kong - Resilience of Free Market

- ◆ Free and flexible economy
- ◆ Hong Kong is Manhattan to Shenzhen, Zhuhai, Macau and Pearl River Delta
- ◆ Shenzhen emerging as hi-tech centre for Mainland due to proximity to Hong Kong
- ◆ Virtual Economy - 85.2% of GDP
- ◆ 12th IT usage economy in world (4th in Asia - 150 ISPs)
- ◆ Open and free press - key to deep financial markets



# Relative Development of Asian Telecom Markets, 1997

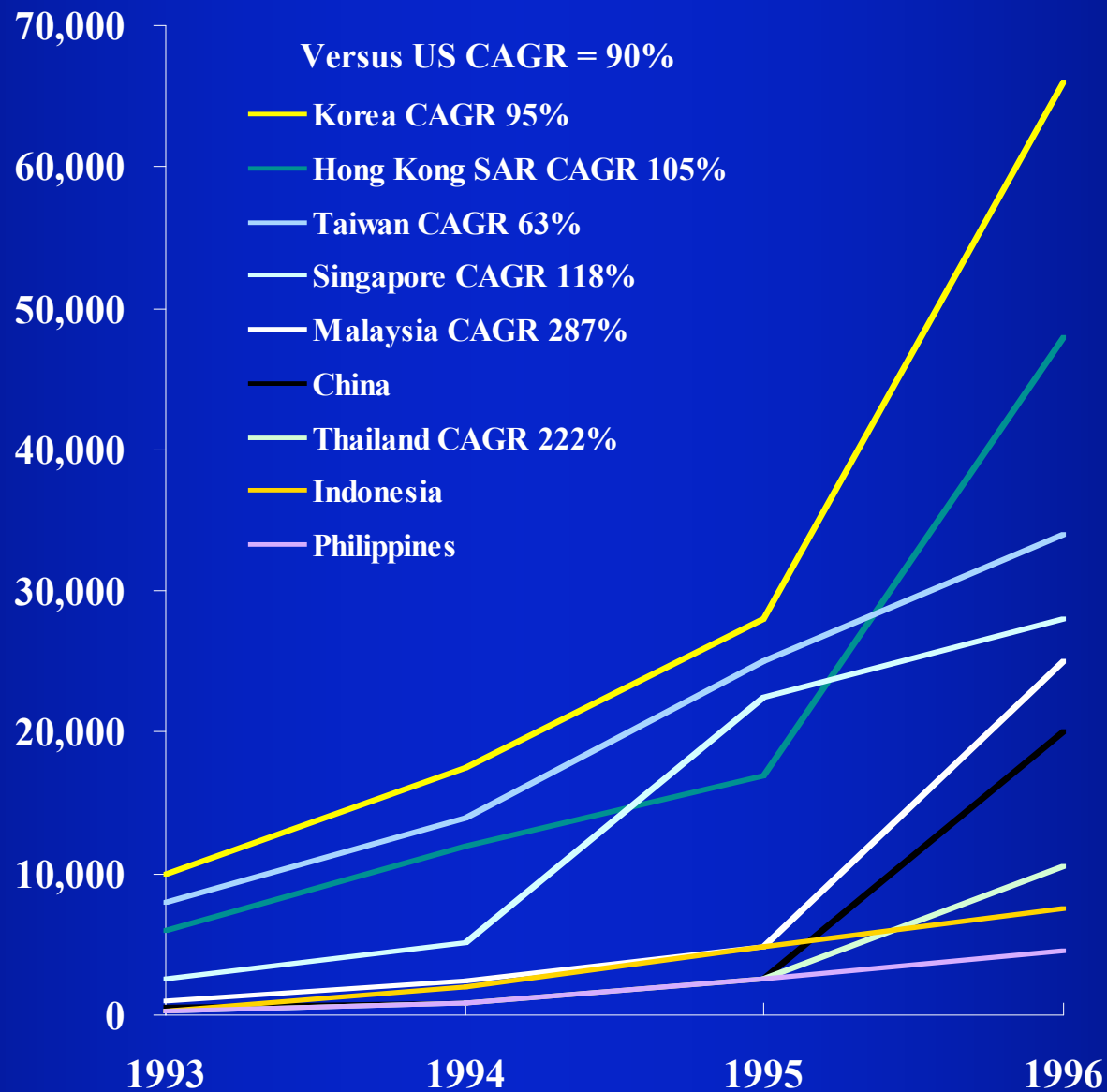


Source: EIU forecast of 1997 GDP; ITU teledensity data



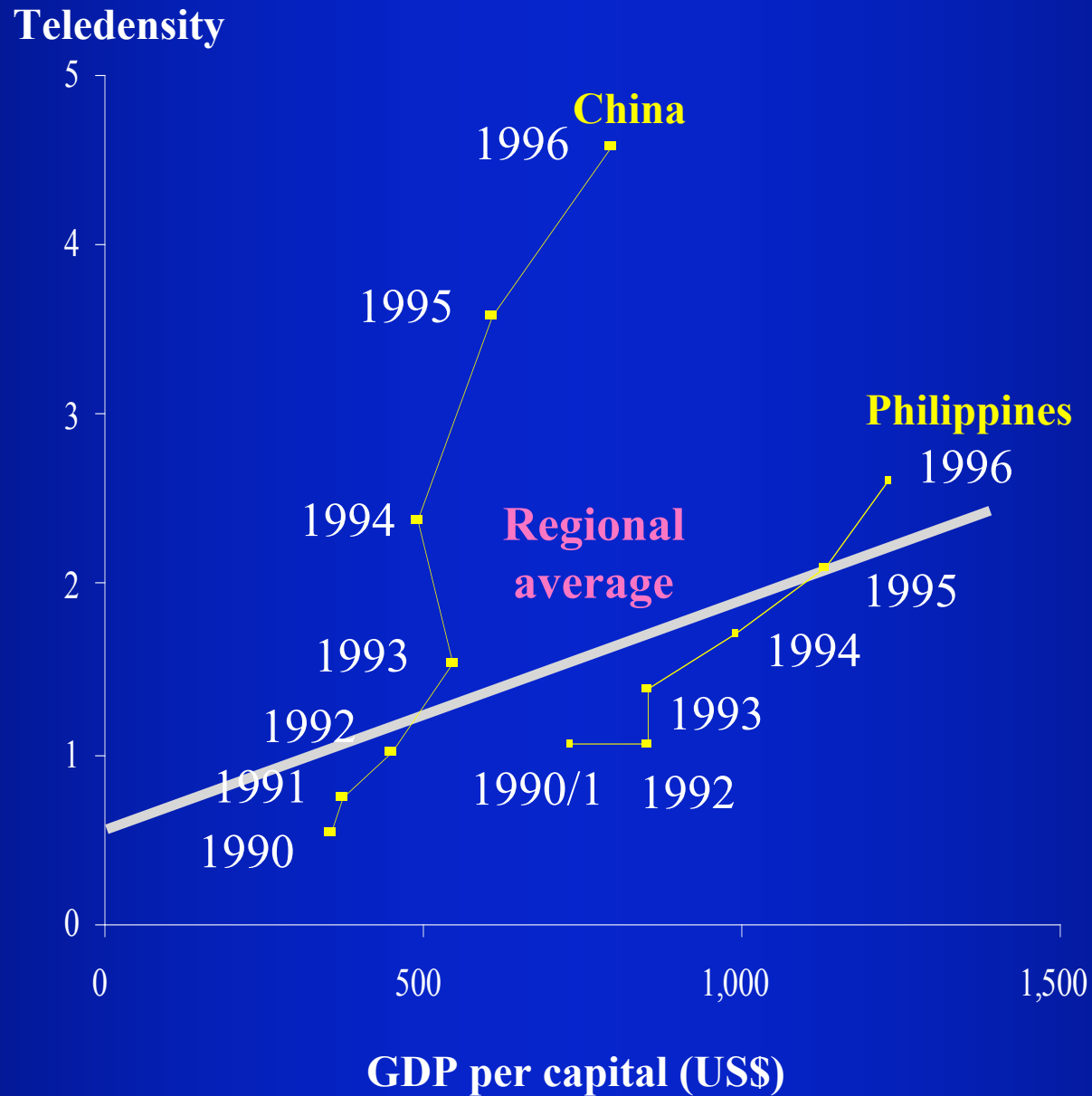
# Growth in Internet Capability, 1993-96

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



## China Teledensity

- ◆ 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



## 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)



# 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 and water supply service being privatized
- ◆ Interest rate rules to be removed
- ◆ Utilities subject to market discipline and price competition