Speech by FS at Manhattan Chamber of Commerce Breakfast Meeting in New York

October 11, 2016

Following is the speech by the Financial Secretary, Mr John C Tsang, at the Manhattan Chamber of Commerce breakfast meeting in New York, the United States (US), today (October 11, New York time):

Jessica (Jessica Walker, President of Manhattan Chamber of Commerce), distinguished guests, ladies and gentlemen,

Good morning.

This is day three of my visit to New York, and I am beginning to find my way again here. I came to live in New York City – when I was 13 years old. That was half a century ago. We lived on St Marks Place between Second and Third Avenue, right across from Electric Circus and a couple of blocks away from Filmore East. I thought then, and even now, that was the coolest place on earth.

I used to walk to school every day, when Stuyvesant High School, an all boy school then, was located on 15th Street.

Soon after we moved to the US, the Hong Kong TDC (Trade Development Council) – this year celebrating its 50th anniversary – followed us to New York, setting up a dazzling display of merchandise as part of Macy's huge "Far East Festival".

The 1966 Hong Kong promotion was punctuated with a 40-foot long dragon boat, three somewhat smaller fishing junks, pagodas, gongs, period Chinese costumes and, of course, a department store bursting with Hong Kong textiles, garments, plastics goods and other Eastern offerings from Hong Kong.

Back then Hong Kong was a global manufacturer and exporter. And our products were finding plenty of buyers here in the US.

In some ways, that hasn't changed much.

Today, Hong Kong is the world's eighth largest trading entity, with total goods and services trade equivalent to more than four times our GDP. And the US is Hong Kong's second-largest trading partner.

As for Hong Kong, we are your ninth-largest export market. Last year, Hong Kong bought US$37 billion worth of goods that were made right here in America. Products of every kind, from telecommunications equipment to fashion and jewellery, as well as meat. Lots of meat as a matter of fact.

With a population of just seven million people, Hong Kong was the US's fifth-largest market for beef and veal exports in 2015.

Of course, besides meat, there is also a lot more business going on between us. Some 1 400 US companies are operating in Hong Kong, while nearly 90 000 people of US nationality call Hong Kong home.

So it shouldn't surprise anyone here when I tell you that the American Chamber of Commerce in Hong Kong is the largest international chamber in our city, and one of the largest business chambers outside the US.

Hong Kong is certainly more than a trading economy. We are a formidable commercial and financial hub serving virtually every market on the planet. In fact, we are the world's most service-oriented economy, with services accounting for more than 90 per cent of our GDP.

And according to a UN report, Hong Kong was, in fact, the world's second-largest recipient of foreign direct investment in 2015, right after the US. FDI inflows to Hong Kong amounted to US$175 billion in 2015, a year-on-year surge of 53.5 per cent compared with the previous year.

Hong Kong's success is built on the rule of law and an independent judiciary, as well as our persistent adherence in upholding economic freedom. That means a level playing field for business, wherever you come from and whatever business you are doing.

Providing, of course, what you do is legal.

No less vital is our strategic location at the heart of Asia and the southern gateway to the Mainland of China, our extensive business network, as well as the free flow of capital, information and talent, in and out of Hong Kong.

There are a good many other advantages too, from our stable and fully convertible currency – tied to the US dollar – to our well-educated, well-spoken workforce.

Our simple and low tax regime is another big plus for enterprises as well as investors worldwide. Just in case you do not know already, Hong Kong's profits tax rate is capped at a cheering 16.5 per cent. Salaries tax at 15 per cent. We have no capital gains tax.

No inheritance tax. No VAT. Even beer and wine are tax free. And you will never find a Hong Kong version of Taxes for Dummies, I am sure. It takes me about three minutes to do my tax return every year.

Our favourable business environment and strengths as an international financial and commercial hub has been well appreciated and recognised. Last month, Hong Kong topped the annual Economic Freedom of the World Report published by the Cato Institute and the Vancouver-based Fraser Institute. Hong Kong has done so, by the way, every year since the report first came out back in 1996.

In May, Hong Kong was ranked the most competitive economy in the world by the International Institute for Management Development in Switzerland.

And earlier this year, the Washington-based Heritage Foundation did the same – naming Hong Kong the freest economy in the world for 22 years in a row.

Of course, Hong Kong's development as an international business and financial centre has been further enhanced by China’s rapid and dramatic growth into the world's second-biggest economy.

The fast-growing Chinese enterprises turn to Hong Kong before foraying into international markets and raising capital for expansion. And this is one of the reasons why Hong Kong's stock market, currently the eighth-largest in the world in terms of market capitalisation, topped the world in equity funds raised through IPOs last year. And we should be able to achieve that again this year.

While China's economy has been growing slower than before, it is still the major driving force of the global economy, contributing over a quarter of the world's current economic growth.

The slower growth of China's economy is not unexpected and not unreasonable, after the double-digit spurt that it enjoyed in the past 30 years or so.

More to the point, China's growth target for this year – between 6.5 and 7 per cent – is the kind of economic nightmare that we'd all love to wake up to. At least to most of the finance ministers that I know. In fact, they would be delighted to achieve just half of that rate.

The ongoing structural reform will help shift China gradually from an investment and export-led economy towards a consumption-driven one.

Indeed, consumption expenditure is now China's largest growth driver, accounting for more than 70 per cent of its economic growth in the first half of this year.

The continued opening up of China's market and its growing demand for high-end services will certainly create massive opportunities for services providers around the world. And no one is better positioned to take advantage of this transformation than the businesses in Hong Kong.

It is particularly so for the financial services sector of Hong Kong, as we continue to assume the essential and unique role in channeling capital between China and the rest of the world, as well as in the internationalisation of its currency, the Renminbi.

On October 1, the Renminbi became the fifth currency in the basket of the International Monetary Fund's Special Drawing Rights, the SDR.

That represents a milestone in the integration of the Chinese economy into the global financial system. It's also a resounding opportunity for Hong Kong.

Hong Kong is the world's leading offshore Renminbi business hub. We have the largest offshore Renminbi liquidity pool, counting some 750 billion Yuan at the end of July.

And, in the first half of this year, some 70 per cent of the world's Renminbi payment transactions were processed in Hong Kong.

In addition to our Renminbi business, other initiatives such as the existing Shanghai-Hong Kong Stock Connect and the upcoming Shenzhen-Hong Kong Stock Connect, as well as the Mainland-Hong Kong mutual recognition of funds arrangement, will help enhance mutual market access between the capital markets of Hong Kong and the Mainland, and accelerate the opening-up of China's capital markets to the world.

Then there are the massive opportunities arising from China's grand and visionary Belt and Road Initiative. The far-reaching scheme seeks to deepen economic ties and infrastructure connectivity between some 65 countries in Asia, Europe and Africa, in the form of railways, highways, ports, power plants, dams and more.

The two corridors of the Belt and Road encompass two thirds of our planet's population and account for a third of global GDP. The Belt and Road may well be the defining multilateral undertaking of this 21st century.

According to an Asian Development Bank report, Asia requires US$800 billion every year to cover infrastructure investment needs from now to the year 2020.

In order to finance the many projects along the Belt and Road, the economies concerned will need to raise a large amount of capital making use of IPOs and other means, from bond issuances to bank loans.

Demand will also be high for asset and risk management, as well as insurance and reinsurance services covering Belt-Road projects.

And, as Chinese enterprises use the Belt-Road to go global, I see significant opportunity in encouraging them to set up captive insurers in Hong Kong.

Opportunity, as well, in encouraging more multinational enterprises to set up regional and global headquarters and corporate treasury centres in Hong Kong. To take full advantage of our international financial system and professional services expertise.

While there are many positive things that we can look forward to, we are constantly looking for new ideas that can help consolidate Hong Kong's strengths and maintain our position as a major international financial centre for the days to come.

And we believe the development and application of Fintech is definitely one way of achieving that goal.

Some studies have predicted that global investment in Fintech will surge from US$12 billion in 2014 to more than US$46 billion in 2020. Just in the first quarter of this year, investors put some US$5.3 billion into Fintech ventures globally - that's a 67 per cent increase over the same period last year.

Given our prowess as a financial centre and our world-class infrastructure to facilitate the flow of information and communications, Hong Kong has what it takes to become a worldwide hub for Fintech.

Indeed, about 50 of the world's top 100 Fintech companies are now operating in Hong Kong.

InvestHK, the government agency responsible for promoting foreign investment in Hong Kong, has just set up a dedicated team to assist overseas Fintech start-ups, investors and R&D institutions to operate, and thrive, in Hong Kong.

We are also creating a favourable and enabling environment for the development of Fintech. Dedicated working space to support Fintech start-ups is being provided and training programmes will be organised to nurture the next generation of Fintech talent, and in developing technologies from cyber security, Big Data Analytics, biometric authentication to Blockchain.

The Hong Kong Monetary Authority is bullish on Fintech. It has just launched a Fintech Innovation Hub as well as a Fintech Supervisory Sandbox, both of which are designed to encourage Fintech trials in a controlled environment and to accelerate R&D of practical Fintech solutions that can meet business needs in the actual operating environment.

Check it out for yourself next month, from November 7 to 11, when Hong Kong hosts its first ever Fintech Week. There are lots to look forward to, including the Finovate Asia, which is a day-long, demo-presentation of some of the hottest banking and financial technology innovations out there.

There are, to be sure, many more other challenges as well as opportunities for Hong Kong and its remarkable run as an international financial centre.

But that discussion might well take us through dinner and last call at the bar. So I'd better stop here.

My thanks to the Manhattan Chamber of Commerce for giving me this welcome opportunity to meet you this morning. Thank you.