

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Financial Development

Executive Summary

(Translation)

- Expediting financial reform on the Mainland and the maintenance of status of Hong Kong as an international financial centre are two stated policy directions in the 11th Five-Year Plan. This paper analyses challenges and opportunities brought about by the 11th Five-Year Plan for the development of Hong Kong as an international financial centre from the government and public sector perspective, with a view to initiating discussions while a practical “action agenda” will be formulated in the next few months.
- The development of Hong Kong as an international financial centre has largely been related to Mainland’s international financial intermediation activities. Compared with other international financial centres such as New York, London and Tokyo, an obvious shortcoming of Hong Kong is the relative small size of its domestic economy. In order to catch up with New York, London or Tokyo, apart from improving its own credentials, an important strategy for Hong Kong as an international financial centre is to strengthen its integration with the Mainland economy and to serve the financial intermediation needs of the large Mainland economy in a more significant scale. To this end, there is a need to have a better understanding of the implementation of the 11th

Five-Year Plan and its implications for the financial system on the Mainland.

- The 11th Five-Year Plan has set out policies for expediting financial reform on the Mainland. Considering these reform policies, going forward, there are three main areas of development of the Mainland's financial system that would have particular implications for Hong Kong: (i) improvement of financial intermediation to ensure sustainable economic growth; (ii) the move towards renminbi capital account convertibility; and (iii) internationalisation of renminbi.
- As these developments of the Mainland's financial system take place, they present challenges and opportunities to Hong Kong as an international financial centre. In terms of challenges, Mainland companies may reduce their use of Hong Kong as a fund-raising platform, while overseas investors will be able to invest in financial markets on the Mainland directly. Hong Kong as an international financial centre will also face competition from other financial centres in the region. On the other hand, however, Hong Kong can seize the related opportunities, by strengthening and developing further its role in the financial intermediation between Mainland and the rest of the world, participating in domestic financial intermediation activities on the Mainland, and, providing a testing ground for renminbi internationalisation.
- China is unique in having the two different financial systems of Mainland and Hong Kong at the same time. The relationship between the two financial systems should be cooperative, complementary and interactive, and the Mainland can make more use of Hong Kong's financial platform. In response to the challenges and opportunities brought about by Mainland's financial reform and liberalisation, the financial development of Hong Kong can proceed with the following five-pronged strategy:
 - (i) **Hong Kong financial institutions to go into the Mainland:** Through the Closer Economic Partnership Arrangement and other channels, Hong Kong financial institutions (including banks, securities companies and insurance companies) should expand their range of services and actively develop their business on the Mainland.

- (ii) **Hong Kong to serve as a gateway for Mainland funds and Mainland financial institutions to come out:** Given that Hong Kong has an efficient, multi-currency platform and Mainland investors are more familiar with the financial markets in Hong Kong than other markets, Hong Kong is an effective channel for orderly outflows from the Mainland. Moreover, Hong Kong can also serve as a springboard for Mainland financial institutions to develop their international business.
 - (iii) **Financial instruments issued in Hong Kong to be made available on the Mainland:** For instance, through dual-listing or depository receipts, investors from both Hong Kong and the Mainland can have access to securities listed in Hong Kong. In addition to equity-related financial instruments, making other financial instruments available on the Mainland, such as bonds and derivative products, can also be considered. This will not only provide Mainland investors with more investment tools but also help the development of Hong Kong's financial markets.
 - (iv) **Enhance the capability of Hong Kong's financial system in handling renminbi-denominated transactions:** It is necessary for Hong Kong to enhance the capability of its financial system to handle renminbi-denominated transactions and provide related risk management instruments in order to play a role in Mainland's domestic financial intermediation. Hong Kong can also provide a testing ground for the move towards renminbi convertibility and internationalisation.
 - (v) **To strengthen financial infrastructural linkages between the Mainland and Hong Kong:** To facilitate cross-border fund flows, monitor the associated risks and enhance the efficiency of financial intermediation and supervision, there is a need to strengthen financial infrastructural linkages between Hong Kong and the Mainland.
- Strengthening the cooperation between the regulatory bodies in Hong Kong and the Mainland is a pre-requisite for the implementation of the above five-pronged strategy. This is also crucial for the financial stability and development of the two places. Furthermore, in promoting the increased use of Hong Kong's financial system for Mainland's financial intermediation through the five-pronged strategy, there is need

and room for developing a wider range of markets for risk management instruments.

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