

## **Anselmo L S Teng: Industrial transfer and financial services viewed from the perspective of Macao**

Keynote speech by Mr Anselmo L S Teng, Chairman of the Monetary Authority of Macao, at the 5th Pan Pearl River Delta Regional Cooperation and Development Forum, Nanning, 14 August 2009.

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Honourable Heads of Delegation,  
Dear Delegates,  
Ladies and Gentlemen,

Good day!

I would like to express gratitude to the host and Mr. Ma Jing, President of the People's Bank of China Guangzhou Branch who have given me an opportunity to communicate with you over how we can make use of the opportunity provided by industrial transfer to promote the development of financial services. At the same time, I would like to make use of the opportunity to greet the financial practitioners from other provinces who attend this meeting and hope that we can enhance our link with a view to fulfilling our common target of achieving regional development.

Industrial transfer is a relocation of assets for more profitable results. Through more effective combination with other production factors, a higher economic growth can be achieved. In general, industrial transfer can be realized via different forms, such as partnership, mergers, re-organization, cooperation and capital pooling. In the process of transfer and acceptance, it will involve a financial platform to facilitate initiation of investment, finance, merger and acquisition which will certainly give rise to a demand for financial services and enhancement of financial efficiency. The demand needs to be satisfied through innovation of financial products and services, business channels and management expertise which financial institutions are expected to provide. The whole process can strengthen the foundation of the financial institution, reinforce its competitiveness and resistance against risks, which to a certain extent enhances the safety and stability of the financial system as a whole.

Industrial transfer obviously triggers demand and development of financial services. Yet, the success of an industrial transfer depends on the result of a series of interactions and related promotions, which may involve financial elements and non-financial elements, such as the incentive, guidance or encouragement arising from government policy relating to industrial transfer. Market demand cannot be neglected. The impact on local inhabitants and environment, the economic gains before the enterprise, the capability of the region to accommodate the transfer should be considered. This will include accessory industries and professional services, local financial services including investment and credit services which the newly relocated industry badly needs. So much the better if a bank which treasures its clients will set up a branch in that location to provide tailor-made financial services.

Now, I would like to revisit the stages of economic development and industrial development of Macao in the past 400-odd years, which is of help in making a conclusion on past experience, uncover its pattern and put forward the views.

As we all know, Macao is a tiny but open economic entity. At the same time, it is an international city where old and new, western and eastern cultures mix. In the past 400 years of development, Macao economy experienced prosperity – recession – recovery – stagnation – recession. Recovery came back after return to China and then we experienced high growth rate. Simultaneously, its industrial structure also had a mutation in tandem with development. At the moment, after 10 years of fast growth, Macao economic structure is facing a new metamorphosis and a need for further diversification.

Macao port opened in 1535. We can demarcate its economic development into four stages. The first stage was 1535-1840. In the 300 years, especially the 100 years from late 16th century to early 17th century, Macao was one of the most prosperous trading ports in the Far East. It was a hub for marine trade between the East and the West. The second stage was 1841-1960. In view of the rise of Hong Kong, Macao was not able to maintain its position as an entrepot in the Far East. In 1847, the Macao Government under Portuguese administration announced legalization of gambling. The third stage was 1961-1999, the Macao economy started its modernization and diversification. First, gaming developed along the natural path to modern tourism services. Second, processing and export flourished.

Under the locomotive effect of tourism services industry and processing and export industry, real estate, construction, banking and insurance burgeoned. Thus, the four major pillars of economy gradually came into shape; they were tourism services industry, processing and export industry, real estate and construction industry, as well as banking and insurance industry. In the ten-odd years from the 80's to early 90's, Macao's economy, due to the opening-up of China, grew by leaps and bounds. The economy expanded rapidly due to very rapid growth. In 1993, with the popping of economic froth, there was an imbalance in economic structure, Macao then experienced recession for a number of years. The fourth stage is 1999 to now. After return to the Motherland, the Macao economy recovered and started rapid growth again. During this period, the financial industry made use of the opportunity offered by economic growth, consolidated the foundation for sustainable and stable development.

A brief look back of past history of the Macao economic development and change in industry, we can perceive the pattern; the two significant developments of Macao financial industry were brought about by the rapid growth of the economy and prosperity. In the 70's and 80's, the policy to diversify manufacturing industry enabled new manufacturing industries to flourish. Coupled with the prosperous development of other pillar industries and the legislation promulgated in 1982 which allowed banks in Macao to expand their activities, the financial system had a rapid growth which in turn stimulated economic development. In 1999, after the return to the Motherland, under the auspices of the Central Government and leadership of the MSAR Government, Macao experienced economic consolidation to rapid growth. The financial industry also benefited from phenomenal economic growth. Financial products became highly diversified and differentiated. Services network, channel and related quality were enhanced. Risk control, management and resilience continued to be strengthened. In the face of this unprecedented global financial crisis, our financial system emerged relatively unscathed, while the operating results continued to stay at a high level.

All along, capitals from the Mainland, Portugal and Hong Kong dominate the Macao banking industry and account for a large chunk of the market. Together with branches of the US, the UK, France, Singapore and Chinese Taiwan banks, the banking system of Macao as a whole is pivotal to the industrial transfer of Macao.

In the 80's to the beginning of the 90's in last century, the Pearl River Delta was the ideal relocation area in attracting industrial transfer due to its comparative advantage in its convenient location, availability of labour and cheap land cost. Macao enterprises made full use of the opportunity provided by the reform/opening-up policy of the nation to move their labour-intensive production base to this area.

From a micro point of view, the migrant enterprise, in the course of transfer, will face the problem if it can obtain the much sought financial services in the new location. How the local financial institutions can provide the necessary funding services for the migrant enterprise under controlled risk is an issue for financial regulator. Generally speaking, the local financial institution has limited information on the migrant enterprise. There is insufficient knowledge of the financial condition of the migrant enterprise, its cash flow, its profitability, its debt servicing ability, the quality of management, hence it gives rise to risk not compatible with information available. The financial institution has difficulty in conducting due diligence on the

credit risk and other related risks. This will ultimately undermine the borrowing capacity of the migrant enterprise and hence the chance to secure a loan. In the event that the collateral offered by the migrant enterprise is not domiciled in the Mainland (e.g. in Macao), the situation will become more complicated. As the legal system and jurisdiction of the two regions are different, particularly when it involves cross border asset pledge, execution and settlement. The limitation will impose a constraint on the related credit transaction, giving rise to risk attached to cross border asset pledge. Such difficult situation applies to Macao enterprises operating on the Mainland and vice versa.

To solve such a problem, banks of the two regions can, as permissible by law, or under full authorization from client, exchange information of client, obtain the required information for credit appraisal, so as to eliminate risk arising from insufficient information. On the other hand, for asset pledge across the border, arrangement can be made to eliminate such uncertainties. The Macao enterprise can pledge its assets to a Macao bank who will provide a guarantee to Mainland bank who intends to provide the credit to the Macao enterprise. When a Mainland enterprise operates in Macao, the same model can be adopted. As such, banks in the two jurisdictions can enhance such credit guarantee operation model, such as setting out the legal documents and format relating to credit guarantee which are legally enforceable. It will certainly help to solve cross border asset pledge issue.

From a wider angle, industrial transfer can happen in one nation or cross border. All along, in view of its unique geopolitical and historical condition, Macao plays an important part in the liaison platform for economic and commercial cooperation between China and Portuguese speaking countries (including Angola, Brazil, Cape Verde, East Timor, São Tomé and Príncipe, Guinea-Bissau, Mozambique and Portugal). These countries are from four continents (Asia, Europe, South America and Africa). They are endowed with abundant natural resources and have a total population of 200 million. Given the historical background of Macao, its relation with the Mainland, interaction between Macao and Portuguese speaking countries, it can perform certain functions to facilitate the process of industrial transfer in the Pan Pearl River Delta region or even the Mainland, such as introducing factors of production from Portuguese speaking countries, accessories or even partnership. It can also help Mainland enterprises to establish in Portuguese speaking countries.

For the financial services which are pertinent in industrial transfer involving China and Portuguese speaking countries, banks of Macao can be of help. All along, Mainland capitals and Portuguese capitals are major players in the Macao banking sector. Mainland capitals operating in the Macao banking sector come from mega banks of the Mainland. They have a network with wide coverage. At the same time, Portuguese capitals operating in Macao banking sector come from banking conglomerates which have outlets in most of the Portuguese speaking countries. These China and Portugal funded banks have a long record of communication, interaction and cooperation in Macao. They can effectively solve or assist in solving possible financial services problems arising from the process of cooperation in industrial transfer between China and Portuguese speaking countries. As a matter of fact, the process may bring in motivation and initiation to stimulate financial innovation of Macao banks and Mainland banks.

Based on the above analysis, retrospection and experience of Macao, I have the following observations:

- 1) For an economy which has an immature, underdeveloped and incomplete financial market, or when the economy is at its initial stage of development, the function of financial institutions is of utmost importance. Thus, the services provided by financial institutions should satisfy the needs arising from economic development, with the ultimate goal of achieving a hand-in-hand growth through interactions.
- 2) When an economy has developed to a certain stage, financial services should outpace economic development to play the role of navigator for further burgeoning of

the economy. At the same time, financial services can serve a function in risk management, providing security for stable development of the economy.

- 3) Industrial escalation and transfer provide a wide horizon and more business opportunity for financial innovation. Therefore, in the course of accommodation of industrial transfer, a fine financial environment has been created. There is a further need for promoting modern financial system and order in a proactive manner. This will effectively perform the leverage function of rational allocation of resources we expect from a financial system which will actually enhance financial innovation and service quality.
- 4) In the course of economic globalization, cross border industrial transfer will be accelerated. In the process, we should start from cooperation between governments which should be extended to practical and cross border cooperation between financial institutions. Such cooperation helps financial industry to grow which in turn prompts industrial escalation and transfer. Through the function of financial services cooperation platform, better and more efficient use of resources can be realized which facilitates economic development.

At last, we come back to the Pan Pearl River Delta Region, which includes nine provinces and the two SAR's of Hong Kong and Macao. We are striving to achieve in this holistic system a rational regional layout, improvement in environment, high efficiency in industrial operation, streamlined work mechanism and co-ordination in regional industrial transfer. In the course of action, the retrospection mentioned above combined with analysis of past experience can be of help. In December last year, the State Council promulgated "The Outline of the Plan for the Reform and Development of the Pearl River Delta". The message is clear that the plan for various economies of the region to become one entity is on the drawing board already. It is my conviction that Macao's platform function and its indigenous banking system will be able to play a more important role in the process of industrial transfer in the region through the implementation of the Outline mentioned above. The MSAR, as a member of the Pan Pearl River Region, gladly and candidly hopes that we can, through all possible channels, participate in regional cooperation and development.

The above is my initial view and observation. I hope it will provide food for further thought and discussion.

Thank you!