

### **Mr. Dai assesses the outlook for Hong Kong as Asia's financial centre**

Speech by the Governor of the People's Bank of China, Mr. Dai Xianglong, at the luncheon hosted by the Hong Kong Financial Secretary in Washington on 30/9/96.

The 1997 World Bank/IMF Annual Meetings will be held in Hong Kong next year. Mr Liu Zhongli, the Minister of Finance and myself will be there welcoming you as the host of the occasion. I foresee that the Annual Meetings to be held next year will be a magnificent event which commands far-reaching historical significance. This is because the Annual Meetings of the two important international financial organisations are to be held in Hong Kong just a few months after China resumes the exercise of sovereignty over Hong Kong. Representatives from various countries will have the opportunity to witness the realisation of the principle of "one country, two systems" in Hong Kong. I believe that nobody will wish to miss such an opportunity.

Mr Tsang has just expressed his views on the economy of Hong Kong before and after 1997. I would like to say a few words from the perspective of the People's Bank of China (PBOC). I have stated on many occasions that we are confident that after China resumes the exercise of sovereignty over Hong Kong, the territory will not only remain prosperous and stable, but its status as an international financial centre will also be further enhanced.

And I have good reasons for this confidence.

First, there are the strong economic fundamentals of Hong Kong and the entrepreneurial and management skills of the people of Hong Kong. These form the basis for Hong Kong's continued prosperity and stability and for maintaining Hong Kong's status as an international financial centre.

As you all know, Hong Kong is an international trade, transport, financial and information centre. With the rapid economic developments taking place in the Asia-Pacific region, Hong Kong's role as an international financial centre will not be weakened; instead, its importance will certainly increase. According to the "Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong" and "The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China", Hong Kong will become a Special Administrative Region of the People's Republic of China from 1 July 1997. It will enjoy a high degree of autonomy with Hong Kong people ruling Hong Kong. Hong Kong will become an independent tariff and trade region and an international financial centre in China but with its own currency. In order to maintain its status as an international financial centre, Hong Kong will inevitably face various challenges. However, Hong Kong will continue to have a sound legal system, advanced communication facilities and infrastructures, professional and management expertise, and strong foreign reserves. Currently, Hong Kong's foreign reserves rank seventh in the world while China's rank second. With the backing of such strong economic strength, we are confident that Hong Kong's status as an international financial centre will be maintained and further enhanced.

Secondly, from the legal angle, the Basic Law assures the continuation and enhancement of Hong Kong's status as an international financial centre.

Articles 109 to 113 of the Basic Law lay down specific provisions relating to Hong Kong's status as an international financial centre, its monetary and financial policies, the status of the Hong Kong dollar and the issuing arrangements, capital movements and the role of

the Exchange Fund. These principles establish the basic monetary relationship between China and Hong Kong under the principle of “one country, two systems”, and this can conveniently be summarised as “one country, two currencies, two monetary systems and two monetary authorities” within a sovereign state. It should be pointed out that the co-existence of two currencies, that is, the Hong Kong dollar and the renminbi, is a clear demonstration of the differences between the economies of Hong Kong and the mainland. It is therefore essential that the two monetary systems should be mutually independent. The renminbi will not replace the Hong Kong dollar. We are of the view that the co-existence of two monetary systems is significant to the economic reform of China.

It follows from the two mutually independent monetary systems of the mainland and Hong Kong that the two monetary authorities will also be mutually independent and one is not superior to the other. The Hong Kong Monetary Authority (HKMA) will be accountable solely to the Hong Kong Special Administrative Region Government from 1 July 1997. The PBOC will not take the place of the HKMA and will not set up any branch office in Hong Kong.

I am glad that international organisations and other central banks also acknowledge the mutually independent relationship between the PBOC and the HKMA.

Both the PBOC and the HKMA were offered membership in the Bank for International Settlements in early September this year. This shows that the work done by the PBOC and the HKMA are widely accepted and appreciated by the central banking fraternity. This also shows that the international financial community fully supports the principle of “one country, two systems” laid down by the Basic Law.

The Basic Law also states that the Exchange Fund shall be managed and controlled by the Hong Kong government. It also states that the revenues of the Hong Kong Special Administrative Region shall be used exclusively for its own purposes. In addition, the Basic Law stipulates that the Chinese Government will not levy taxes in Hong Kong. These three-fold safeguards are evidence that China will not interfere with Hong Kong’s financial matters. We have reiterated time and again that under no circumstances will China draw on or resort to Hong Kong’s Exchange Fund or other assets in any way or for any reason. On the contrary, the PBOC will support the currency stability of Hong Kong. The PBOC and the HKMA entered into a bilateral agreement on repurchase of US treasury paper early this year. We also stand ready to provide funds to support the Hong Kong dollar, if necessary.

Thirdly, the economic development of the mainland has created excellent conditions for the continuity and further strengthening of Hong Kong’s prosperity and stability. Economic development in the mainland provides a strong support to Hong Kong’s economic development. China is confident in Hong Kong’s maintaining prosperity and stability after 1997 because we have full confidence in the economic development in China.

China is firmly committed to continuing with its economic reform and our achievements are widely recognised. Currently, the macro-economic situation in mainland China is steady. The various macro-economic indicators do meet our targets laid down early this year and some even out-perform our expectations. It is anticipated that this year’s economic growth will be around 9%. The retail price is expected to rise by about 7% and is expected to remain steady over the next two years or may even ease further. At present, our foreign reserves are over US\$ 90 billion and are expected to exceed US\$ 95 billion by the end of this year. Since the beginning of the second quarter this year, external trade has posted some steady growth. There is a significant inflow of capital and our balance of payments is in a healthy position. Therefore the

exchange rate of the renminbi, which is determined by the market, will remain stable. The renminbi, for all intents and purposes has become fully convertible in the current account. We are in advance of our schedule in satisfying the requirement stipulated in Article VIII of the IMF Articles of Agreement.

In the next five years, China will continue to adopt an appropriately tight monetary policy. The adoption of this policy means firstly, we will have an appropriately tight monetary stance to keep inflation at a level lower than the rate of economic growth. Secondly, money supply should grow at an appropriate level. In the next five years, the annual growth rate of M1 will be kept at around 18% and M2 at 21% to 23%. Thirdly, reforms and improvements will continuously be made to the approach in making macro-economic adjustment. That is, we will move from reliance on direct control of the volume of credit towards regulating money supply by means of indirect monetary policy instruments such as reserve requirements, open market operations and interest rate policy. Appropriately tight monetary policy is not limited to the control of total credit but also adjustment of the credit structure, deepening of monetary reforms, and timely adjustments to the different aspects of the monetary system. An appropriately tight monetary policy is conducive to the healthy, stable and sustained growth of the national economy. It also helps to create favourable conditions for the resumption of sovereignty and the continued prosperity of Hong Kong.

Stability in China is the very basis for Hong Kong's stability while Hong Kong's stability will certainly enhance economic reform and developments in China. Foreign investors in Hong Kong will, at the same time, benefit from the stability of China and Hong Kong.

Those sceptics who have doubted China's commitment to the open door policy no longer can have such doubts after witnessing the implementation of our economic reforms and its achievements. I hope you will recognise that China is firmly committed to implementing the principle of "one country, two systems" and maintaining the prosperity and stability of Hong Kong, just as we have been firmly committed to the implementation of economic reform in China. The principle of "one country, two systems" is the realisation of the spirit of our constitution and has become a long-term irreversible national policy. As China continues to pursue its economic reform, Hong Kong's role as the international financial centre in China will become more and more important. We will do our best to help maintain the existing economic system of Hong Kong and keep up its economic dynamism. We also hope that the international financial community will join us in our efforts to maintain Hong Kong's prosperity and stability.

Ladies and gentlemen, when you come to next year's Annual Meetings in Hong Kong, you will all see for yourselves the realisation of the principle of "one country, two systems" in Hong Kong. In addition, I believe that the 1997 World Bank/IMF Annual Meetings will be an impressive event as a result.