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Hong Kong to Reap Financial Dividends

Linking the financial markets of Hong Kong and mainland China would bring considerable benefits to the territory's economy and finance centre, according to Hong Kong Monetary Authority Chief Executive Joseph Yam.

In his regular column for the authority's website, Yam said the wider and deeper the market, the more liquid it is, and the more efficient the price-discovery process. Less market concentration a common feature of big markets, also means less scope for market manipulation, he wrote.

"By contrast, the situation of smaller, open markets is less benign. There is often much greater and sharper volatility, to the extent of threatening financial stability or even the viability of the financial system. Such volatility may undermine market integrity by making financial stability much more difficult to maintain and shifts in regulatory policy more likely," Yam stated.

Noting that bigger markets have considerable advantages over smaller markets, and that there is an overlap in the instruments traded in Mainland and Hong Kong markets, Yam added there would be obvious benefits for the country as a whole in linking the two.

Yam continued:

"It is clear, at least to me, that there would be big advantages if the two markets for these instruments were linked: Overall liquidity would be increased, price discovery would be made more efficient, market discipline would be promoted, and it would be easier for market players, intermediaries and the authorities to manage risk.

"In Hong Kong, the international financial centre serving the fourth-largest and the fastest-growing economy in the world, the size of the economy should be a much smaller constraint than in other places. And the usual constraint arising from the use of different currencies need not be insurmountable. With the right approach, we should be able to grow where others cannot.

Yam concluded. "Let me make it clear that I am not talking about unification - that is not an option, at least for the foreseeable future - but rather the creation of a channel between the two markets that will allow them to function as one and enjoy the benefits of one, much larger market."

-Mary Swire, Tax-News.com, Hong Kong



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