Hong Kong

Creating Growth Through Reinvention

By Mike Rowse, Director-General,
Investment Promotion, Invest Hong Kong, Hong Kong

EDITORS' NOTE *A Hong Kong resident since 1972, Mike Rowse served as the city's first tourism commissioner before becoming the first director-general of investment promotion. As the latter, he established Invest Hong Kong.*

Mike Rowse

ORGANIZATIONAL BRIEF *With its vision of confirming and strengthening Hong Kong's position as a leading international business hub, and its mission to attract and retain economically and strategically important investments, Invest Hong Kong (www.investhk.gov.hk) was organized as a government agency in 2000. It assists companies in obtaining all the support required to operate in China's special administrative region.*

Asia's hub in every sense, Hong Kong is also its most international city: a vibrant, cosmopolitan community where East meets West. This produces a creative, dynamic business culture and an ideal environment for international investors interested in expanding.

Hong Kong is a leading global and regional center for business and finance. It is also the second-largest recipient (after China) of foreign direct investment in Asia and 10th in the world. The city is the chosen base for some 3,100 regional headquarters and regional offices representing companies from all around the globe, and 73 of the world's top 100 banks operate in Hong Kong. We are also home to 310+ banking institutions, more than 190 insurers, around 700 securities dealers, and about 1,900 unit trusts and mutual funds. It should be noted too that global business has not been significantly affected by the SARS outbreak. In fact, over the past year or so, 135 international investors have set up offices or substantially expanded their presence here. This has been a great vote of confidence.

Hong Kong's recipe for success includes its sound economic fundamentals and strong financial system, combined with a regulatory environment that helps companies to prosper. Built on the cornerstones of free enterprise, free trade, and free markets, Hong Kong boasts one of the world's most open, externally oriented economies – also consistently ranked as the world's freest by America's Heritage Foundation and Canada's Fraser Institute. Hong Kong embraces the globalization of trade and services, and is an active participant in international organizations promoting these activities. As a duty-free port, no quotas or tariffs apply; money, goods, and services flow without restriction. Taxes here are among the lowest in the world, there is an abundance of skilled labor, while the pool of professional service providers is unrivaled in the region.

Life in Hong Kong is based on the rule of law, thus providing a level playing field for individuals and enterprises, and guaranteeing a safe and predictable investment environment. A sophisticated legal framework and the effective enforcement of regulations protect intellectual property rights.

Despite all these attributes, Hong Kong has experienced its fair share of challenges. The Asian financial turmoil of 1997 and the subsequent bursting of the asset bubble required some painful restructuring, but the emergence of China as one of the world's fastest-growing economies has brought myriad opportunities, especially in the Pearl River Delta. The delta is one of China's richest, fastest-growing regions, with a population of some 40 million. It is an enormously attractive market, with average annual GDP growth of nearly 17 percent over the past 12 years, as well as an unsurpassed production base for exports. Today, the delta's economic development is fueled by thousands of foreign-invested companies producing competitively to international standards.

On June 30, 2003, the Closer Economic Partnership Arrangement (CEPA) between China and Hong Kong was signed, opening up new and exciting opportunities. CEPA covers three main areas: trade in goods, trade in services, and trade and investment facilitation. Regarding trade in goods, many Hong Kong products will enjoy zero tariffs in the mainland market. Regarding trade in services, a number of sectors – including construction, logistics, advertising, accountancy, banking, insurance, and audio-visual, medical, and legal services – will have greater market access in China. This free-trade agreement also creates immense potential for Hong Kong to become a center for higher value-added manufacturing for a domestic market of 1.2 billion people. And in the wake of China's recent accession to the WTO, the signing of CEPA further strengthens Hong Kong's role as an international trade, investment, and business hub.

Established in 2000, Invest Hong Kong is the government department offering solutions-oriented investment promotion, facilitation, and aftercare services to ensure that companies have the support required to establish or expand operations here and in the greater Pearl River Delta. We also provide consultation, regulatory advice, and logistics-support guidance by experts in professional services, information technology, electronics, financial services, biotechnology, telecommunications, tourism, entertainment, trade-related services, and transportation. At present, we are particularly involved in seeking new investors in the development of Pier 9, a world-class tourism-and-entertainment facility on Hong Kong's spectacular waterfront, and in the International Exhibition Centre at our international airport.

So far in 2003, Invest Hong Kong has been enjoying its best year ever in terms of the number of completed projects the agency has assisted, and discussions with companies and inquiries from prospective investors suggest that this favorable trend will continue. We were pleased when, earlier this year, *Strategic Direct Investor* magazine named Invest Hong Kong the Best Overall Managed Investment Promotion Agency (IPA), Best North Asia IPA, Best IPA Creating Partnerships, and Best IPA Attracting Financial Services Investment.

Hong Kong's advantages will make our city, even more than before, the preferred location for international businesses serving China and Asia Pacific. Invest Hong Kong welcomes you and looks forward to helping you establish or expand your operations in Asia's World City. ●

Hong Kong

Hong Kong Banks

On the Verge of a New Era

By The Honorable Dr. David K. P. Li, Chairman and Chief Executive, The Bank of East Asia, Limited, Hong Kong

The Hon. Dr. David K. P. Li

EDITORS' NOTE *Having joined the Bank of East Asia (BEA) in 1969, David Li was appointed a director in 1977, chief executive in 1981, deputy chairman in 1995, and chairman in 1997. He is also chairman of the Chinese Banks' Association, the Hong Kong Management Association, and the Salvation Army (Hong Kong and Macau Command) advisory board; director of the Mandatory Provident Fund Schemes Authority; and a member of the Banking Advisory Committee, the Exchange Fund Advisory Committee, the Hong Kong Red Cross Advisory Board, and the Legislative Council of Hong Kong. In addition, Dr. Li is a director of Campbell Soup, CATIC Shenzhen Holdings, Chelsfield, China Merchants China Direct Investments Limited, China Overseas Land and Investment, COSCO Pacific, Dow Jones, Guangdong Investment, Henderson Cyber, the Hong Kong and China Gas Company, Hongkong and Shanghai Hotels, Hong Kong Interbank Clearing, the Hong Kong Mortgage Corporation, PCCW, San Miguel Brewery Hong Kong, the SCMP Group, Sime Darby Berhad, and Vitasoy International Holdings.*

COMPANY BRIEF *Incorporated in 1918, The Bank of East Asia, Limited (www.hkbea.com), is the largest independent local bank in Hong Kong, with total assets of $24.3 billion (as of June 30, 2003). It operates more than 130 outlets worldwide – including 102 branches in Hong Kong, 19 in mainland China, and an extensive network covering the United States, Canada, the British Virgin Islands, the United Kingdom, and Southeast Asia – employing some 5,300 people.*

BEA offers a wide range of wholesale- and retail-banking services through its China services units, and corporate-, personal-, and investment-banking divisions. Products and services include foreign-currency savings, premium banking services, mortgage loans, consumer loans, credit cards, Cyberbanking, Mandatory Provident Fund services, trade finance, syndication loans, remittances, and foreign-exchange margin trading. In addition, the bank provides comprehensive insurance services through Blue Cross (Asia-Pacific) Insurance (a subsidiary of BEA), and business, corporate, and investor services via the Tricor Group.

Listed on the Stock Exchange of Hong Kong as SEHK, BEA is one of the constituent stocks of the Hang Seng index.

Prior to the sharp fall in property prices sparked by the 1997 to 1998 Asian financial crisis, banks in Hong Kong offered a relatively unsophisticated range of services. Mortgage loans formed the largest component of the loan book, while property also underpinned lending to businesses. In fact, lending was so dependent upon property that Hong Kong never developed an adequate credit-reference infrastructure, neither for consumer lending nor businesses.

Since 1997 property prices have fallen by up to 70 percent. Low transaction volumes and intense competition have driven profits out of the mortgage business. And shrinking collateral values have forced banks to call in many business loans.

Faced with this unprecedented market upheaval, banks have responded with daring and determination. Thus, the story of Hong Kong banking since 1997 has been an extraordinary one: of an entire industry remaking itself. At the same time, the government has moved to improve the support infrastructure. A consumer credit bureau was launched in June of this year, and plans for a commercial credit-reference agency are at an advanced stage. Armed with a better picture of credit risk, banks are offering a greater range of loan products and pricing.

The new Hong Kong bank is a sophisticated retailer, with an upscale brand image and an efficient branch network geared to selling a wide range of products and services. Fast disappearing are the cramped banking halls of old, with long queues at tellers' windows. In their place are large, welcoming halls, conveniently laid out by product area. Today, wealth-management services, insurance, consumer lending, and China business services are the growth areas that are delivering strong and rising profits to Hong Kong banks. And the queues have all but disappeared, as everyday transactions are handled via the Internet or ATM machines.

The new Hong Kong bank is ready for new opportunities, and a golden one recently arrived in the form of the Closer Economic Partnership Arrangement [CEPA] with China: a landmark free-trade agreement between Hong Kong and the mainland, covering both goods and services. Until the unveiling of CEPA on June 29 of this year, the number of Hong Kong banks that could expand northward was severely limited by a long-standing Chinese requirement: Only those overseas banks with at least $20 billion in assets could apply to operate branches in China. CEPA cuts that requirement to $6 billion for Hong Kong-based banks, thus opening the market to most of Hong Kong's mid-range lenders for the first time. Plus, discussions on additional trade concessions continue, as Hong Kong and mainland negotiators strive to meet a January 1, 2004, deadline for the implementation of CEPA.

Under one exciting proposal, Hong Kong banks would be permitted to accept deposits of Chinese yuan renminbi at home, and to draw on those funds to support their lending activities in the mainland. Therefore, if these discussions are successful, Hong Kong would become the first center outside the mainland permitted to trade Chinese currency, thereby enhancing its role as an international financial center. Furthermore, Hong Kong banks would gain an important competitive advantage over other foreign banks operating in China, as they would be freed from an overreliance on China's interbank market to expand their lending business in the mainland.

Hong Kong is on the verge of a brilliant new era in banking, as it captures the advantages of its unique position vis-à-vis the mainland. ●

Hong Kong

The J.P. Morgan Advantage in Asia

An Interview with R. Ralph Parks, Chairman, Asia Pacific, J.P. Morgan Chase & Co., New York

R. Ralph Parks

EDITORS' NOTE *"It's extremely easy to destroy a franchise, but extremely difficult to build one," declares Chairman Ralph Parks, noting proudly that J.P. Morgan Chase has "an extraordinarily good franchise." And, among his many tasks, Parks considers it his responsibility to protect and nurture the good name of that franchise, "instilling and exemplifying the culture of the firm across the region through the messages that I deliver, the way I act, and the leaders I appoint," the chairman explains. In large part, the success of that process depends on emphasizing "our professional advantage," he continues, which "lies on both the asset and liability sides of the balance sheet." Specifically, "we intermediate capital flows with great efficiency," then "to that financing capability, we add strategic advice and risk-management products, serving the investor as well as the issuer population." Thus, J.P. Morgan Chase is able to beat out "a large range of competitors – domestic, local, and regional," Parks reports, winning the loyalty of an "extremely select clientele" comprising "the leading companies in Asia."*

With more than 30 years' experience in investment banking, Parks has served as a partner at the Goldman Sachs Group and the Beacon Group. When the latter company was acquired by J.P. Morgan Chase & Co. in July 2000, Parks was appointed chief operating officer for J.P. Morgan's investment banking operations in Europe. The recipient of a B.A. from Rice University and an M.B.A. from Columbia Business School, he assumed his current post in April 2001.

COMPANY BRIEF *Headquartered in New York, J.P. Morgan Chase & Co. is a leading global financial-services firm, with assets of $741 billion and operations in more than 50 countries. Maintaining relationships with more than 990 of the* Fortune *1,000 companies, the firm is a leader in investment banking, asset management, private banking, private equity, custody and transaction services, and retail and middle-market financial services. A component of the Dow Jones Industrial Average and listed on the NYSE as JPM, J.P. Morgan Chase (www.jpmorganchase.com) serves more than 30 million consumers and employs about 96,000 people. The company reported total revenues of $43.4 billion and net income of $1.7 billion in 2002.*

As a result of the SARS crisis, the Asian market has been under tremendous strain. How much of an impact has that had on J.P. Morgan Chase's business in Asia, and how optimistic are you about the coming year?

We were extremely optimistic earlier this year, but the SARS problem set GDP growth in Asian economies back between half a percentage point and a point and a half for the full year, depending on the country and the severity of the disease's impact. Nevertheless, many Asian economies continue to grow at a fairly good clip. For example, despite SARS, I think China is going to surprise us with very robust figures in exports and industrial production. As a result, we're hopeful about next year.

Is China the key to economic growth in Asia?

Absolutely. We are maintaining a long-term focus on China, not least because its economy is so immense.

Which other countries offer opportunities for growth?

Both Thailand, projected to have a growth rate of 5 percent or more this year, and Indonesia, which is also boasting robust growth figures, are pleasant surprises. In addition, a number of good business opportunities are currently available around the region, especially in North Asia.

The broad range of services J.P. Morgan Chase offers in Asia places the company among stiff competition. What makes J.P. Morgan Chase unique in the Asian market?

I don't entirely agree with that assessment. We compete with a large range of competitors – domestic, local, and regional – but our model is substantially different from most of theirs. For example, many of our global competitors have transactions and market share, and they're successful at trading and generating commissions. However, unlike us, they cannot compete for the largest transactions.

Our professional advantage lies on both the asset and liability sides of the balance sheet. First, we intermediate capital flows with great efficiency. To that financing capability, we add strategic advice and risk-management products, serving the investor as well as the issuer population. Let's not forget that we've been in existence as a legal entity for only two and a half years. That is a relatively short time to build an investment-banking franchise, which reflects our full potential. So, getting our message out in the marketplace is our main challenge.

How do you define the target market for J.P. Morgan Chase? Is it broader than that of other multinational investment banks?

We are major providers to a large and yet extremely select clientele, the leading companies in Asia. Also, we're intensely focused on finding emerging companies – the future champions of the region. For example, we're bringing a privately owned Chinese company to the equity markets in the fourth quarter of this year. That firm is in a very basic business, but it's growing at 25 percent a year, with profit margins of between 20 and 30 percent. It is a highly attractive company that continues to benefit from the growth of China's economy.

Sovereign debt underwriting is another of our global strengths, which we've especially demonstrated in Asia. We are one of three lead underwriters to the Chinese sovereign in its periodic global bond issues.

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And we act as advisors both for foreign companies seeking to invest in China and for Chinese firms looking to invest abroad. In this segment of our business, we serve large companies in the region, whether their business is local, regional, or global.

How closely coordinated from region to region is the message of J.P. Morgan Chase?

It is very coordinated. Interdependencies of execution, coverage, and distribution require us to be intensely networked around the world. We constantly share information through e-mail, voice mail, telephone, and Internet teleconferencing. We do almost no business that could be described as merely local.

What role does technology play in your company?

It leverages our intellectual capital by helping our people communicate, access information, deal with clients, and deliver services more efficiently. That is particularly true for us in Asia, where we're very interdependent with larger hubs in Western Europe and the United States. As one example, during the SARS crisis, we used video conferencing to make a presentation to a Chinese company looking to buy a company outside of China, and we also