

HONGKONG'S FOREIGN EXCHANGE MARKET TODAY AND ITS PROSPECT

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Within the framework of animated economic activities of the Pacific-East Asia, Hong Kong has been emerging as a highlight of money markets and, together with South Korea, Taiwan and Singapore, she is playing a considerable part in the regional exchange of trade relations through cooperation and uniformity.

The fast growth of China seaboards in the open age inclined Hong Kong towards a position as a great patron of the mainland. Moreover, a prospective plan of China in the transformation the east square of Shanghai into a worldwide trading-financial-economic centre by the year 2000 will offer that one cannot but regard to the importance of Hong Kong. Thus, the fact that Hong Kong will be merged in China after 1997 should simultaneously help to shape Shanghai-Hong Kong-Taiwan into a new money triangle of Chinese.

Naturally, this very fact will pose many problems hard-to-solve for Hong Kong's banking and money trading circles. For the sake of investors in the foreign exchange market, Hong Kong government has just put through a bill so as to manage and standardize foreign exchange operations. Generally, the bankers concern themselves with this new bill, because they thought it will have a great influence on the growth of Hong Kong's money market and process of integrating Hong Kong into China in the last years of this century as well.

The foreign exchange deregulation of government in the early 1970s formally led Hong Kong to set up its establishment of a money market. It was the very time that money markets of Western countries and Japan was in full swing, and the profits earned by exchange of foreign currencies had been really attracting the public and private sectors' attention in Hong Kong. In the late 1970s, Hong Kong's structure of foreign exchange business had got into a drastic change in quality through the presence of Hong Kong and foreign commercial banks.

The foreign exchange market is always affected by the fluctuation in values of currencies, especially in their inter-relation-that is, the rate of exchange-so Hong Kong's banks and money trading circle interested themselves in the ex-

change rates of currencies engaged in here, and then many organizations specialized in researching on the rates of exchange and particular factors were established. It could be said that Hong Kong's foreign exchange market was shaped by a selected understanding of operational experiences of the systems of America-England and Western European countries, and thus had grown very considerably for a short time. Hong Kong's government had specially given its attention to a determination and planning the fit trade policies which was looked on as the factors having a direct effect on the growth of foreign exchange market and the money trading activities. By basing on a review of a healthy balance-of-payments position, a tight control over the inflation, and the structure of imports and exports, the financial-monetary policies had tried to aim at an assurance that there were suitable rates of exchange between the Hong Kong dollar and the currencies of other countries.

Therefore, it could be said that the late 1970s to the early 1980s was an overall growth period of foreign exchange operations in Hong Kong. Along with a crowded participation of commercial bank systems, the non-financial companies (in which the multi national companies stood out from the rest) had a part in the internationalization of Hong Kong's money market. As an agent of monetary regulation, the Hong Kong Central Bank had actively taken part in foreign exchange market to stabilize the price of its own dollar and to assure an equilibrium in the balance of payments. By the endeavours of the government and money trading circle, Hong Kong became one of the world's three greatest foreign exchange markets in 1983 (behind London and New York). It is estimated that the total amount of money in circulation on the foreign exchange markets of the world were about US\$ 800 billion in which Hong Kong made up approximately US\$ 100 billion.

Until the early 1990s, because of fluctuations in the world economic and political life, Hong Kong's exchange market hadn't been brisk as in the past, and then it had slipped down to the sixth rank (behind London, New York, Tokyo, Zurich, Singapore). The specialists in banking and foreign exchange in the world assumed that there were at least four main causes as follows:

1. There were many great banking centres emerging in Asia of which Tokyo and Singapore were the considerable competitors.
2. The governments of many countries have required that their banks should maintain a low level of reserves in order to come actively into competition in the world markets.
3. Under the influence of the trend of economic internationalization, there was a fast growth of the money markets in other regions of the world.
4. Until recently the damages caused by the foreign debts of the third world countries have confined considerably the share of American banks in Hong Kong's foreign exchange market today.

Besides, it is said that a shift in rank of Hong Kong was resulted from anxieties of the business circles about the prospect of investment portfolios when Hong Kong is merged in China.

The amount of commercial and foreign exchange banks in Hong Kong today reached 250 with about forty thousand personnel, but an uniformity of professional knowledge isn't a prevailing condition yet, and thus the investors sometimes met trickeries and considerable damages. For that reason, an enactment of a law document for managing the business of foreign exchange has turned an urgent need of investors.

In July, 1993, Hong Kong government put forward a basic bill of the business of foreign exchange to protect investors. After suffering many examinations, this bill is still in dispute amongst the legislators. They decided that the bill

will come into effect after the third round discussion which occurs from now to the end of 1994.

According to this bill, people who wanted to register for the business of foreign exchange must have real assets not being under three thousand Hong Kong dollars, and a working capital of 25 million Hong Kong dollars. In case the foreign exchange banks break the law and cause investors damage, the directors of such banks will be sued in a civil action and then they will be investigated into other responsibilities defined by this bill. It also related that the person who holds stocks as business shouldn't transfer any shares with a value being under 10 million Hong Kong dollars, in addition there was a permission of dispensations for the worldwide organizations.

In the process of discussion, many members of Hong Kong's legislative council insisted that this bill would create an even chance of competition in the money market between commercial banks and foreign exchange companies, so as to overcome a rigging of the market by banks.

The Hong Kong banking circle argued that 70 percent of fully satisfactory results of Hong Kong foreign exchange market in 1993 and the past years as well were caused by the banking system itself. After being taken effect, it's possible that this will cause customers to turn to trading with banks. According to their ideas, this bill presented strictness, so it's necessary that the banks must be allied themselves for strengthening their capital, and some banks being in a scarcity of capital would even shift from their kind of undertaking to another or they should go out of business. Thus, this bill doesn't create favourable legal conditions for banking activities yet.

There was possibly a variety of estimations, but it's clearly that a screen will be an unavoidable matter, somehow. According to the estimate of businessmen of this field, there would be about 30 banks out of 250 that is eligible to continue a productive business. In order to cope with this prospective situation, many commercial banks have transferred their establishments to Amoy, so there were more 100 exchange banks which has been just founded there within the first half of 1994. According to the statistics of the Asian Development Bank (ADB), Singapore has paid their attention to training well-skilled persons last year; on this side, Hong Kong has presented a posture being inferior to the past. At the same time, Shanghai was seen more and more as a potential competitor. The problem facing Hong Kong government is how to put the China into a general orbit in concord with the money markets in Hong Kong and the region, especially in questions related to accepting the Hong Kong techniques of banking. In that case, Hong Kong's business circle would have got a chance of penetrating into the mainland market and upgrading the competitiveness.

The trading activities of foreign currencies and the economic growth of East Asian region in past decades have synchronized as they occurred. The potentiality of these economies has forerun a future of great promise, but it also wouldn't show any less challenge. The currencies of Asia such as China yuan, Taiwan dollar, Thailand baht, Japan yen, Amoy dollar, Singapore dollar, etc, that have a great margin of fluctuation. The stock markets of these countries have great attraction for foreign investments. That very fact would push for getting foreign exchange markets in this region into shape for a time. In the world foreign exchange market today, it could be said that Tokyo-Hongkong-Singapore is getting to be a big monetary triangle with the fact that China will keep the money markets open, it's certain that Hong Kong-Taiwan-Shanghai will get to be a "new monetary triangle" which compete with each other, but it also will not show any less attraction, in East Asia, Pacific-Asia, and the world as well ♣