

# LCQ11: Declining competitiveness of Hong Kong

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 6):

Question:

In March this year, the Z/Yen Partners in the United Kingdom and the China Development Institute in Shenzhen jointly published the latest Global Financial Centres Index Report. The global ranking of Hong Kong's overall competitiveness dropped from the third in September last year to the sixth. It is also the first time since 2017 that Hong Kong fell out of the top three places. In this connection, will the Government inform this Council:

(1) given that in responding to why Hong Kong's ranking plunged within half a year, the Government indicated that "...the unprecedented challenges arising from the social incidents in Hong Kong in the past year, and how these were perceived overseas, might have affected Hong Kong's score in the online questionnaire survey and the overall ranking", whether the Government has investigated and identified other causes for the drop of Hong Kong's ranking; if so, of the details; if not, the reasons for that;

(2) whether it has made the necessary preparation for driving Hong Kong back to the top three places and whether concrete measures are in place to promote to the international community Hong Kong's edge in financial services; if so, of the details; if not, the reasons for that; and

(3) as the aforesaid report has shown that among Hong Kong's rankings in the five areas of competitiveness, its ranking in "Financial Sector Development" is the lowest (ranked only sixth), lagging behind those of Singapore, Zurich and Frankfurt, whether the Government has countermeasures to enhance Hong Kong's performance in financial sector development and to strive for a rise in ranking; if so, of the details; if not, the reasons for that?

Reply:

President,

Our consolidated reply to the three parts of the question is as follows.

There are many ranking reports compiled by various organisations, with different scopes, methodologies, focuses, etc., which are under constant reviews and changes from time to time. Ranking indexes could be reference for us to better understand our performance and identify areas that require improvement, in which we will continue our efforts. The Global Financial Centres Index (GFCI) Report jointly published by the Z/Yen and the China

Development Institute from Shenzhen is one of these ranking reports. In the GFCI 27 Report published in March this year, Hong Kong ranked number six globally and remained one of the top ten leading international financial centres in the world.

We note that the GFCI 27 Report noted a high level of volatility in the ranking of the financial centres when compared with previous reports, probably reflecting the uncertainty around international trade and the impact of geopolitical and local unrest. The overall ratings of financial centres ranked number two to six were very close. Among the five areas of competitiveness (namely Business Environment, Human Capital, Infrastructure, Financial Sector Development, and Reputational and General) as mentioned in the Report, Hong Kong ranked above some of these centres with a higher overall ranking in four or more areas.

However, in the index's online questionnaire, which gauged views from respondents based on perceptions, Hong Kong's score has dropped more significantly compared with the top five financial centres. The unprecedented challenges arising from local social incidents in Hong Kong in the past year, and how these were perceived overseas, might have affected Hong Kong's score in the online questionnaire and the overall ranking.

Notwithstanding the above, Hong Kong's institutional strengths and underlying fundamentals remain intact and strong. The core competitiveness of Hong Kong remains unchanged. We will continue to enhance Hong Kong's position as a major international financial centre, make good use of Hong Kong's connectivity with the Mainland and international market and leverage the opportunities presented by the Guangdong Hong Kong-Macao Greater Bay Area (Greater Bay Area) and the Belt and Road Initiative, with a view to developing the city into a broader and deeper fundraising platform, further enhancing Hong Kong's position as a centre for offshore Renminbi business, asset and wealth management, insurance and risk management as well as green finance, and promoting the development of financial technology (Fintech). Among others, our major measures this year include:

#### Asset and Wealth Management

To consolidate Hong Kong's position as an international asset and wealth management centre, we have been putting in efforts in a multi-pronged approach, including the establishment of a limited partnership regime that meets the operational needs of investment funds, so as to encourage the setting up of private equity funds in Hong Kong. We published the bill in the Gazette in March 2020, and hope that the Legislative Council (LegCo) will complete scrutiny and pass the bill as soon as possible for the implementation of the proposal. Furthermore, we plan to provide tax concession for carried interest issued by private equity funds operating in Hong Kong subject to the fulfilment of certain conditions, with a view to attracting more private equity funds to domicile and operate in Hong Kong. We will consult the industry on the proposal, and the relevant arrangement will be applicable starting from 2020/21 year of assessment upon completion of the legislative exercise.

## Broadening and Deepening the Securities Market

To further develop the securities market, we will enhance the attractiveness of Hong Kong as an Exchange Traded Fund (ETF) listing platform. We will expand the scope of the existing waiver of stamp duty on stock transfers relating to ETFs. This will provide incentives for ETF issuers to launch ETFs tracking Hong Kong stocks in Hong Kong, and hence drive the depth, breadth and liquidity of our securities market. We plan to table the relevant subsidiary legislation before LegCo in the first half of 2020 to give effect to the proposal. Separately, building on the success of the new listing regime implemented since April 2018, the Hong Kong Exchanges and Clearing Limited (HKEX) is conducting a consultation on whether corporate entities should be allowed to possess weighted voting rights. Upon the end of the consultation period, HKEX will carefully consider the views collected and decide on the way forward.

## Risk Management Centre

We introduced an amendment bill into LegCo in December 2019 to provide tax concessions to promote the development of marine insurance and underwriting of specialty risks. We also published in the Gazette in March 2020 two amendment bills. Among the legislative amendments involved in these two amendment bills, those related to insurance-linked securities and captive insurance aim to facilitate the issuance of insurance-linked securities in Hong Kong and expand the scope of insurable risks by captive insurers set up in Hong Kong. The other legislative amendments related to group supervision aim to enhance the regulatory framework for the regulation and supervision of insurance groups where a holding company for the group is incorporated in Hong Kong, so as to establish Hong Kong as a preferred base for large insurance groups in Asia Pacific. We hope that LegCo will complete scrutiny and pass the bills as soon as possible for the implementation of the proposals. Furthermore, there is consensus with the Mainland authorities to allow a lower capital requirement for the Mainland insurer when it cedes business to a qualified Hong Kong professional reinsurer. The Insurance Authority has also launched the Belt and Road Insurance Exchange Facilitation platform, which brings together a cluster of key stakeholders and provides a platform for exchanging intelligence on risk management and insurance, facilitating networking and looking for solutions. All these measures will enhance the competitiveness of Hong Kong insurance industry to develop its risk management businesses, and help the industry to seize opportunities arising from the Belt and Road Initiative and the Greater Bay Area development.

## Green Finance

The inaugural green bond of US\$1 billion issued under the Government Green Bond Programme last year was well received by investors worldwide and set an important new benchmark for potential issuers in Hong Kong and the region. We plan to issue green bonds totalling \$66 billion in the five years from 2020-21, having regard to the market situation. We will also work with

the regulators and industry to strengthen policy support and market infrastructure and enhance Hong Kong's international visibility in promoting green and sustainable finance, with a view to further consolidating and developing Hong Kong's position as a premier green finance hub in the region.

## Fintech

The Government attaches great importance to the development of Fintech. In recent years, the Fintech ecosystem in Hong Kong has become increasingly mature, and we have made progress on a number of important Fintech infrastructure and initiatives, including the introduction of the Faster Payment System and the issuance of virtual bank and virtual insurer licences. On the regulatory front, the financial regulators have set up regulatory sandboxes for the development of innovative services in the Fintech industry. The Securities and Futures Commission has also established a new licensing framework for virtual assets trading platforms. In addition, we introduced two Fintech initiatives in the 2019 Policy Address, namely, to strengthen Fintech talent training for in-service financial practitioners and to establish a new Fintech event space in Wan Chai in collaboration with Cyberport to allow Fintech stakeholders to exchange ideas and drive Fintech demand and business opportunities. The Government will continue to adopt a multi-pronged approach in promoting and facilitating Fintech development so as to enhance the overall competitiveness of the financial services industry and consolidate Hong Kong's status as a leading international financial centre.

Looking ahead, we will strive to address the perception issues and clarify doubts. We will step up our promotional efforts and put across the message that Hong Kong remains a leading international financial centre and the gateway to the Mainland market. For example, in the coming year, we would enhance publicity support for the "Asian Financial Forum", "Hong Kong FinTech Week" and other relevant signature events. We would also promote Hong Kong's competitiveness as a major international financial centre through media events or events in partnership with relevant industry associations and reputable organisations.