

LCQ19: Enhancing Hong Kong's status as an international financial centre

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 (April 28):

Question:

The Z/Yen Partners in the United Kingdom and the China Development Institute in Shenzhen jointly published on March 17 this year the 29th edition of the Global Financial Centres Index Report. The overall global ranking of Hong Kong leaped from the sixth in the 27th edition and the fifth in the 28th edition to the fourth in the 29th edition of the Report. Furthermore, there was a mere one point difference between the overall ratings of the financial centres in the second to the fifth places in the overall ranking (namely London, Shanghai, Hong Kong and Singapore), indicating a very keen competition among them. Even though the overall ranking of Singapore was lower than that of Hong Kong, in respect of the five areas of competitiveness (i.e. business environment, reputation and general, human capital, financial sector development and infrastructure), which were formulated based on data, its rankings in the first four areas were higher than that of Hong Kong. With regard to enhancing Hong Kong's status as an international financial centre, will the Government inform this Council:

(1) whether it has summed up the reasons for the leap in Hong Kong's ranking in the last two editions of the Report; if so, of the details; if not, the reasons for that;

(2) whether it has conducted an analysis and comparison of the strengths and weaknesses of London, Shanghai, Singapore and Hong Kong in the aforesaid areas of competitiveness, and formulated plans for closing or widening the rating gaps between Hong Kong and those financial centres; if so, of the details; if not, the reasons for that; and

(3) given that the "Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035" approved earlier by the National People's Congress has mentioned giving support to enhancing Hong Kong's status as an international financial centre, whether the Government has set objectives and formulated a roadmap in this respect; if so, of the details; if not, the reasons for that?

Reply:

President,

The Global Financial Centres Index (GFCI) Report has been released in

March and September every year since 2007. In the March 2021 Report, Hong Kong was ranked fourth. My reply to the various parts of the question is as follows:

(1) & (2) The GFCI Report takes into account both instrumental factors, which are formulated based on data, and online questionnaires, which gauge views from respondents based on their perceptions on individual financial centres, in compiling the ranking of financial centres. As reflected by the results, Hong Kong has all along been one of the leading international financial centres.

The Report published in March 2020 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. Among the five areas of competitiveness (namely Business Environment; Human Capital; Infrastructure; Financial Sector Development; and Reputational and General), Hong Kong ranked above some of these centres with a higher overall ranking in four or more areas. However, in the online questionnaire, Hong Kong's score has comparatively dropped more significantly.

The Report published in March 2021 pointed out that the overall ratings of financial centres have yet to recover to the levels in 2019, which reflects the continuing uncertainty brought about by international trade, the impact of the COVID-19 pandemic and the geopolitical environment. Notwithstanding that financial markets globally have become more volatile over the past year or so, Hong Kong's institutional strengths and underlying fundamentals stay intact and strong, and the financial system has been resilient. Different facets of the financial services sector continue to function in an orderly manner. Hong Kong's overall ranking rose by two places from March last year to rank number four in the world. Among the aforementioned five areas of competitiveness, Hong Kong rose by one place in both Infrastructure and Financial Sector Development to rank number four and five in the world respectively, bringing the overall rating up by four points to 741, which was the biggest rise among the top seven financial centres. We are endeavoring to enhance the competitiveness of Hong Kong as an international financial centre. On creating a favorable business environment, Hong Kong possesses institutional strengths including highly open and internationalised markets, rule of law and a free flow of information and capital, as well as the unique advantages of the "one country, two systems". The Government is carrying out the legislative work to improve the electoral system of Hong Kong for the implementation of "patriots administering Hong Kong", so as to bring Hong Kong back on its right track and promote the long-term stability and prosperity of Hong Kong. On promoting the development of the financial sector, we will continue to leverage our role as the gateway between the Mainland and international markets.

(3) The "Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035" (the 14th Five-Year Plan) acknowledges the significant functions and positioning of Hong Kong in the overall development of the

country, which includes supporting Hong Kong to enhance its status as an international financial centre, strengthen its status as a global offshore Renminbi (RMB) business hub, an international asset management centre and a risk management centre, as well as deepening and widening of mutual access between the financial markets of Hong Kong and the Mainland. Under the new development pattern of "dual circulation", the Government will, in accordance with the content of the 14th Five-Year Plan, formulate and implement various policy measures, make good use of Hong Kong's connectivity with the Mainland and international market, and leverage the enormous opportunities presented by the Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area) development and the Belt and Road Initiative to contribute to the economic development and opening up of the country, as well as to promote sustainable development of the local financial sector.

Specifically, we are taking forward the following key policy measures:

(i) Asset management: The Hong Kong Monetary Authority (HKMA) will continue to work with the relevant authorities to step up the preparation for the two-way cross-boundary wealth management connect pilot scheme with a view to expediting its implementation. At the same time, we will propel the further development of the asset management business of Hong Kong. Policy measures include providing tax concession for carried interest issued by private equity funds operating in Hong Kong, establishing mechanisms to attract existing non-Hong Kong funds to re-domicile to Hong Kong, and providing subsidies for open-ended fund companies and for promoting the development of real estate investment trust (REIT) of Hong Kong to encourage the listing of more REITs in Hong Kong.

(ii) Risk management: We are striving for early establishment of after-sales service centres by the Hong Kong insurance industry in the Mainland cities of the Greater Bay Area, as well as implementation of the "unilateral recognition" policy for Hong Kong motor vehicles entering Guangdong through the Hong Kong-Zhuhai-Macao Bridge, in order to promote mutual insurance market access in the Greater Bay Area. We will also launch a two-year Pilot Insurance-linked Securities Grant Scheme to attract insurance enterprises or organisations to issue insurance-linked securities in Hong Kong.

(iii) Mutual market access: Together with the regulators, we will continue to work with the relevant Mainland authorities step by step to take forward various proposals for expanding the mutual market access programmes and the arrangements for enhancing the programmes, including the inclusion of exchange-traded funds (ETF) under the mutual capital market access programmes, as well as to launch the Southbound Trading of Bond Connect within this year.

(iv) Green and sustainable finance: We will promote more Greater Bay Area institutions to make use of Hong Kong's capital market for green investment, financing and certification, thereby supporting green enterprises and projects in the Greater Bay Area, developing Hong Kong into a green finance centre and promoting the ecological conservation and green development of the country. We plan to expand the scale of the Government Green Bond Programme

and issue retail green bonds, and launch a new Green and Sustainable Finance Grant Scheme to mobilise capital towards sustainable projects in the region.

(v) Financial infrastructure and financial technology (Fintech): We plan to enhance the efficiency and capacity of our domestic Central Moneymarkets Unit (CMU) and introduce new functions, so as to develop the CMU into a major central securities depository platform in Asia and in the world in the long run. We will also continue to promote the cross-boundary application of Fintech in Hong Kong and the Mainland, so as to reinforce Hong Kong's status as a leading Fintech hub. We will, in concert with the financial regulators, actively encourage the industry to explore and test various Fintech solutions and products with cross-boundary applications involving the Greater Bay Area, including the proof of concept project that connects the HKMA-facilitated eTradeConnect with the People's Bank of China's Trade Finance Platform.

The above measures can further enhance Hong Kong's status as a global offshore RMB business hub and facilitate the RMB internationalisation process.

As announced by the Financial Secretary in the 2021-22 Budget, our Bureau has set up a joint working group together with financial regulators to explore how Hong Kong can complement the economic and financial development of our country and meet the needs of international investors, with a view to setting out the development blueprint for engagement with the Central Authorities to secure their support. We will follow the guiding principles of the 14th Five-Year Plan when setting out the development blueprint to implement the various planned goals. We will strive to consolidate our role as the international financial centre of our country while contributing to national development.