



# Hong Kong as China's Global Financial Centre

*Global Finance Conference*

*Frankfurt 14<sup>th</sup> Euro Finance Week*

17 November 2011

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**(Central and Eastern Europe)**

**Hong Kong Special Administrative Region Government**



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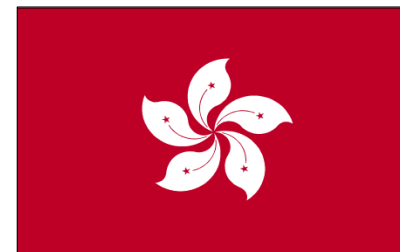
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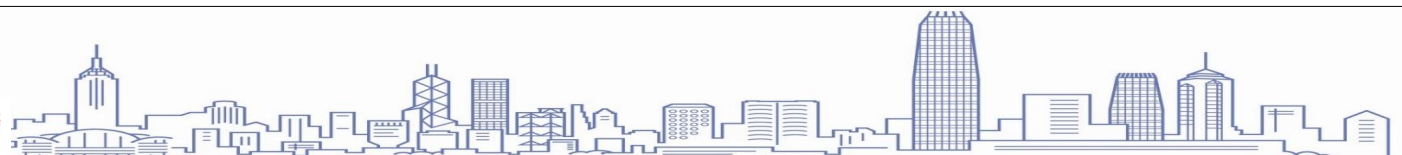




# 1.1 Basic Facts



Population:	81,8 million	7,1 million
Density:	229 per km <sup>2</sup>	634 per km <sup>2</sup>
Area:	357,022 km <sup>2</sup>	1,104 km <sup>2</sup>
GDP in Euro (Q2 2011):	629.4 billion	164 billion
GDP Yearly Growth Rate:	3.5 %	5.1%
GDP per Capita in Euro (2011):	25,822	24,980
GDP – Services Sector:	71.3 %	92.5 %
Unemployment:	6.5 %	4.6 %
Inflation:	2.6 %	5.8 %



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# 1.2 Hong Kong ranked 5th in Global Cities Index 2010



Source: Survey conducted by the American journal Foreign Policy, in conjunction with A.T. Kearney and the Chicago Council on Global Affairs

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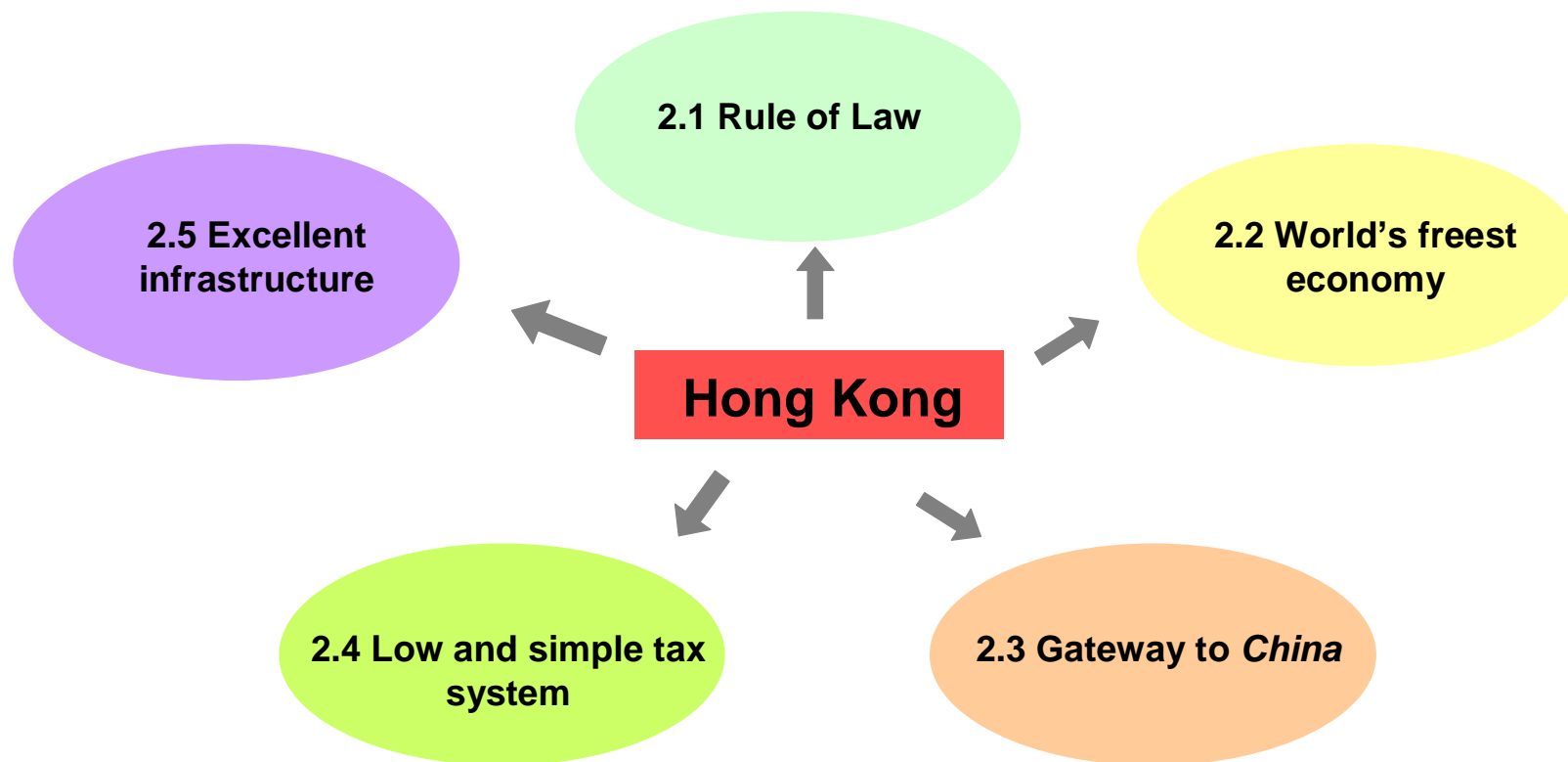
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## 2. What makes Hong Kong China's Global Financial Centre?





## 2.1 Rule of Law - *The Basic Law*

- 1 July 1997 - Hong Kong Special Administrative Region of the People's Republic of China
- **“One country, Two systems”**
  - own legal system
  - own financial system
  - own economic system
  - own social system
  - own political system
- High degree of autonomy  
“Hong Kong people ruling Hong Kong people”





## 2.2 World's Freest Economy



2010 Index of Economic Freedom <i>Source: The Heritage Foundation/ The Wall Street Journal</i>		Economic Freedom Ratings 2010 <i>Source: The Fraser Institute (Economic Freedom of the World: 2010 Annual Report)</i>		The World Competitiveness Scoreboard 2009 <i>Source: IMD</i>	
1	<b>Hong Kong</b>	1	<b>Hong Kong</b>	1	<b>US</b>
2	<b>Singapore</b>	2	<b>Singapore</b>	2	<b>Hong Kong</b>
3	<b>Australia</b>	3	<b>New Zealand</b>	3	<b>Singapore</b>
4	<b>New Zealand</b>	4	<b>Switzerland</b>	4	<b>Switzerland</b>
5	<b>Ireland</b>	5	<b>Chile</b>	7	<b>Australia</b>
6	<b>Switzerland</b>	6	<b>United States</b>	8	<b>Canada</b>
7	<b>Canada</b>	7	<b>Canada</b>	13	<b>Germany</b>
8	<b>United States</b>	8	<b>Australia</b>	17	<b>Japan</b>
9	<b>Denmark</b>	9	<b>Mauritius</b>	20	<b>Mainland China</b>
10	<b>Chile</b>	10	<b>United Kingdom</b>	21	<b>UK</b>

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## 2.3 Gateway to China



- The world's third busiest airport
- One of the world's busiest ports
- 23 minutes from Central to Airport by high-speed train
- Less than an hour from GPRD "the factory of the world"
- 10<sup>th</sup> largest trading entity in merchandise trade  
EUR 602 billion (2.8% of world total)
- 14<sup>th</sup> largest services trading entity  
EUR 114 billion (2.2% of world total)





# 2.4.1 Low and Simple Tax System



■ Corporate Income   ■ Personal Income   ■ Employer Social Security   ■ Employee Social Security   ■ VAT



Only imposes three direct taxes - profits, salaries and property

- **NO** VAT/GST or sales tax
- **NO** Estate duty
- **NO** Capital gains tax
- **NO** Global taxation (offshore income and only HK-sourced income is taxable)
- **NO** Withholding tax on dividends and interest
- **NO** Wine duty

Source: Forbes Tax Misery Index 2009, Inland Revenue



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## 2.4.2 Double Taxation Agreements



Confirmed Double Taxation Relief Agreements with 21 trading partners:

- Austria
- Belgium
- Brunei
- Czech Republic
- France
- Hungary
- Indonesia
- Ireland
- Japan
- Kuwait
- Luxembourg
- Liechtenstein
- Mainland of China
- New Zealand
- Netherlands
- Portugal
- Spain
- Switzerland
- Thailand
- UK
- Vietnam

- In negotiations:**
- Denmark
  - Finland
  - India
  - Italy
  - Korea
  - Macau
  - Malaysia
  - Malta
  - Mexico
  - Pakistan
  - Saudi Arabia
  - the United Arab Emirates

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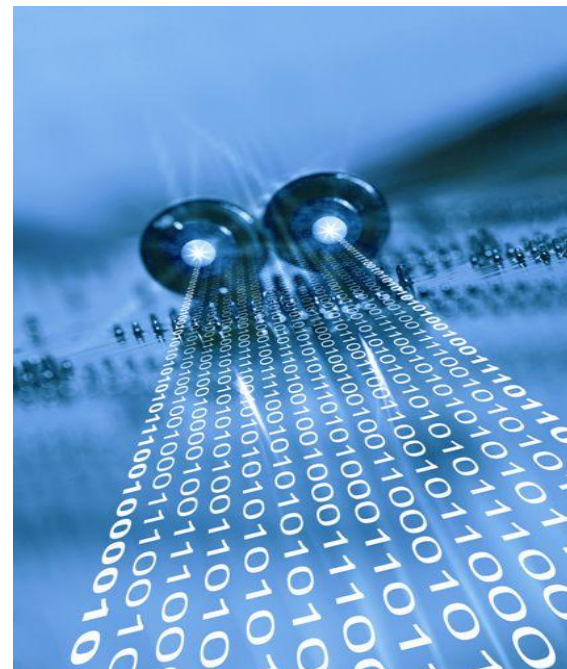




## 2.5.1 Excellent Infrastructure - Communication



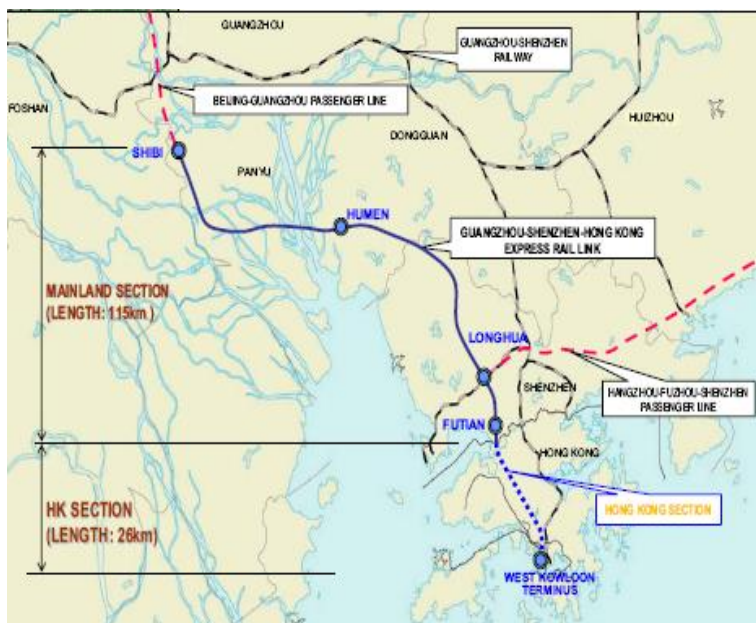
- Asia's most innovative economy  
*Global Innovative Index*
- 7<sup>th</sup> most e-ready economy in the world  
*Economist Intelligence Unit*
- 3<sup>rd</sup> highest average broadband connection speed  
*US-based network provider Akamai Technologies*
- World's most affordable internet and mobile phone services with penetration rates among the highest in the world.





## 2.5.2 Excellent Infrastructure - Transport

- Estimated capital works expenditure for 2011-12 will reach a record high of over HKD 58 billion (EUR 5.5 billion) and will exceed HKD 60 billion (EUR 5.7 billion) for each of the next few years
- Generating from commissioning to a mature stage 250,000 new jobs





### 3. Hong Kong's *Big Three* Financial Domains



- **Asia's international asset management hub**
  - With funds under management in excess of US\$1 trillion (EUR 736.5 billion)
  - Home to 70 of the world's 100 largest banks
- **Offshore RMB centre**
  - First and largest offshore RMB platform – handles 86% of China's global RMB trade
- **IPO centre**
  - Global leader in IPOs since 2009
  - World's largest securitised derivatives market in 2010

Ranking	City
1	London
2	New York
<b>3</b>	<b>Hong Kong</b>
4	Singapore
5	Shanghai, Tokyo
7	Chicago
8	Zurich
9	Geneva
10	Sydney, Toronto

*The Global Financial Centres Index (GFCI) 9, The Z/Yen Group, March 2011*





## 4.1 International Use of RMB: Background

- **President HU Jintao Jan 2011:**  
the international currency system dominated by the US dollar is a "product of the past".
- **Governor ZHOU Xiaochuan Nov 2010:**  
“the US dollar as an international currency does not only have the characteristics of a reserve currency, it is also used to denominate commodity transaction, direct investment and capital flow. If the dollar’s international role is in conflict with its domestic role, we should reflect on the problems of the international monetary system.”
- **Vice Premier LI Keqiang August 2011:**
  - “ for Hong Kong to play an irreplaceable role in the process of Mainland’s reform and liberalization serves the needs of Hong Kong as well as the needs of the country “
  - “Hong Kong should capitalize on the increasing important function RMB is playing in international monetary system to enhance the status of Hong Kong as an international financial center. This is also the strategic objective of the country’s 12<sup>th</sup> Five Year Plan ”





## 4.2 International Use of RMB:

### Emerging trends post-global financial crisis

- China, as world's second largest economy, largest exporter and holders of official reserves, is the only trading nation not using its currency to invoice trade and investments
- intra-emerging markets trade and capital flows
- Chinese capital “going out”
- Daily transactions in Chinese commodity futures exchanges largest in the world, but segregated from the rest of world's price discovery process





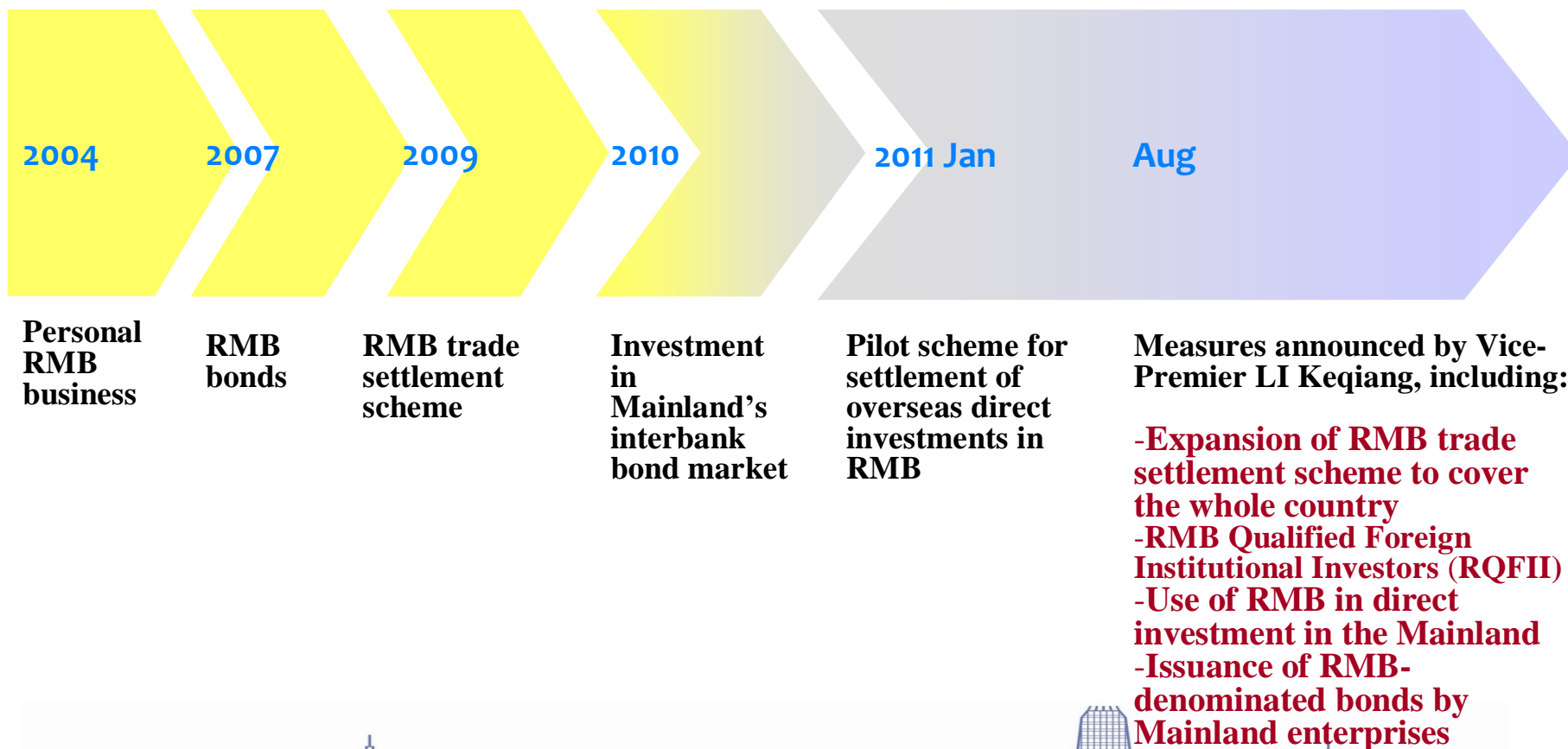
## 4.3 International Use of RMB: Strategic Benefits

- **China:** Promote the role and status of RMB and Chinese financial institutions in the international arena
- **Hong Kong:** Enhance status as an offshore RMB business Centre and international financial centre
- **Corporates:** Reduction in foreign exchange risks, RMB financing in capital markets and business opportunities
- **Investors:** Currency diversification and wider choice of investment instruments



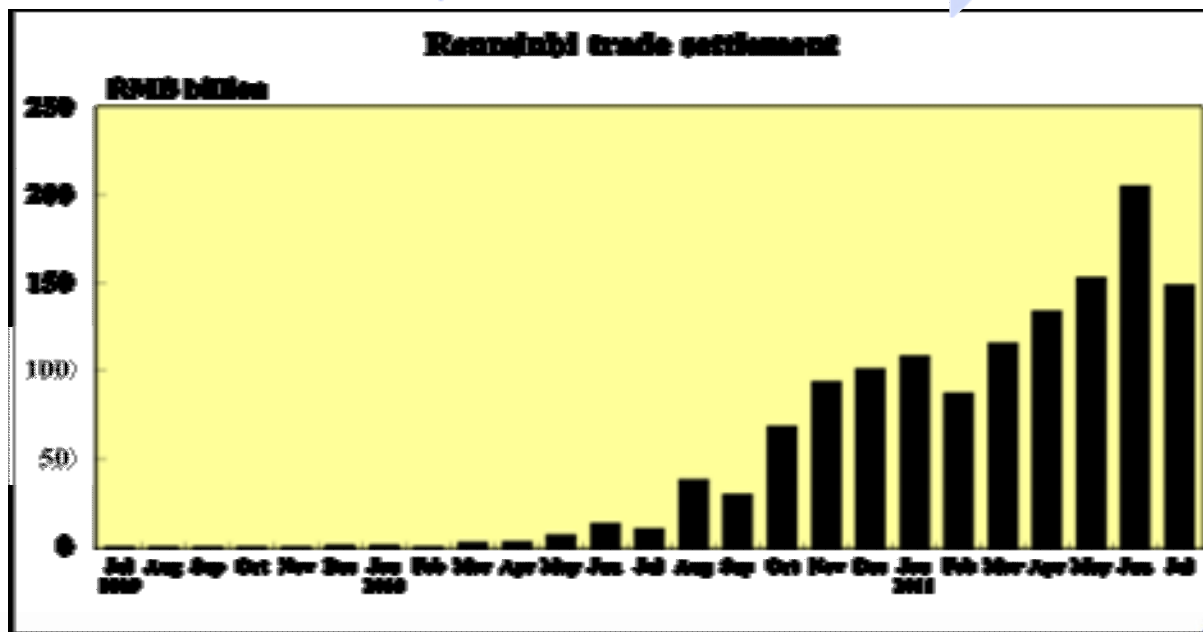


## 4.4 International Use of RMB: Milestone & Measures





# 4.4.1.1 Cross-border Trade Settlement



1 RMB = 0.116 EUR

2010 Aug-2011 Aug:  
RMB1,470.5 billion  
(EUR 171 billion)

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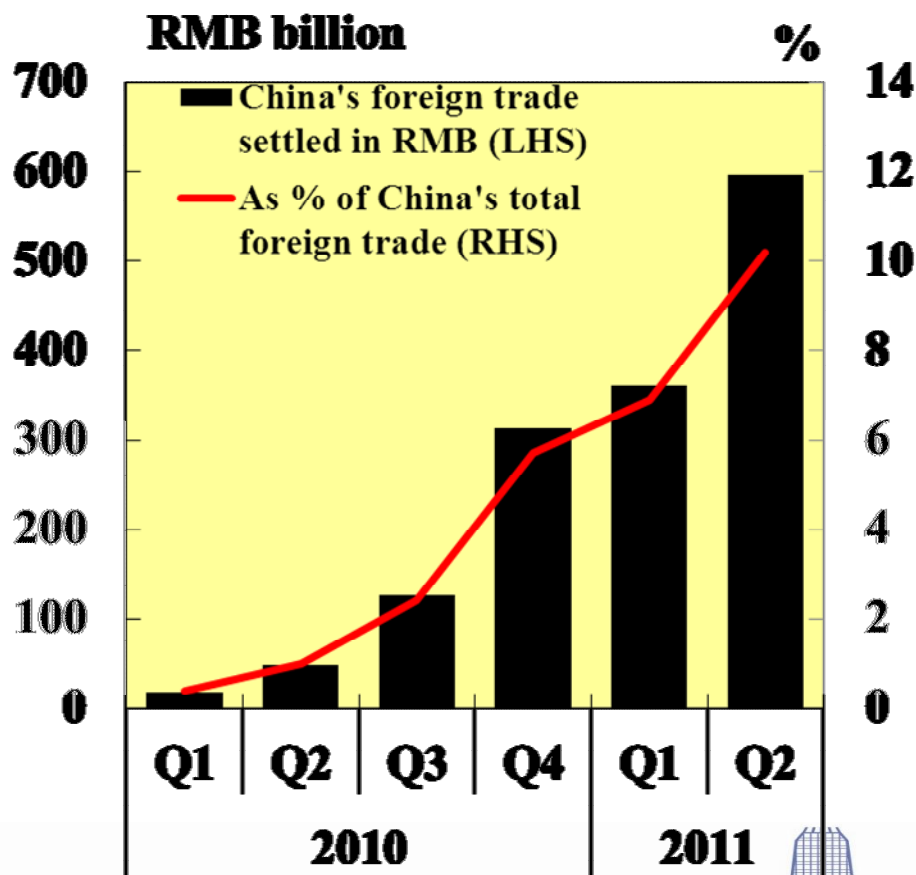
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## 4.4.1.2 Sharp Growth in China's Foreign Trade Settlement in RMB

1 RMB = 0.116 EUR





## 4.4.2 RQFII to spur growth of RMB funds

- RMB Qualified Foreign Institutional Investors (RQFII)
- Offshore RMB funds to access portfolio investments in the Mainland via RQFII
- Imposition of RMB 20 billion (EUR 2.3 billion) in quota, balance of fixed-income vs equities predetermined initially
- Facilitate the launch of more RMB-denominated products





## 4.4.3.1 Renminbi Offshore Direct Investment & Foreign Direct Investment (RMB ODI & FDI)

2011

January 2011  
\*PBoC announced rules allowing Mainland's overseas direct investments to be denominated in RMB

14 October 2011  
\*\*Mofcom and PBoC announced rules allowing foreign direct investments to be denominated in RMB

\*PBoC = People's Bank of China

\*\* Mofcom = Ministry of Commerce of the People's Republic of China

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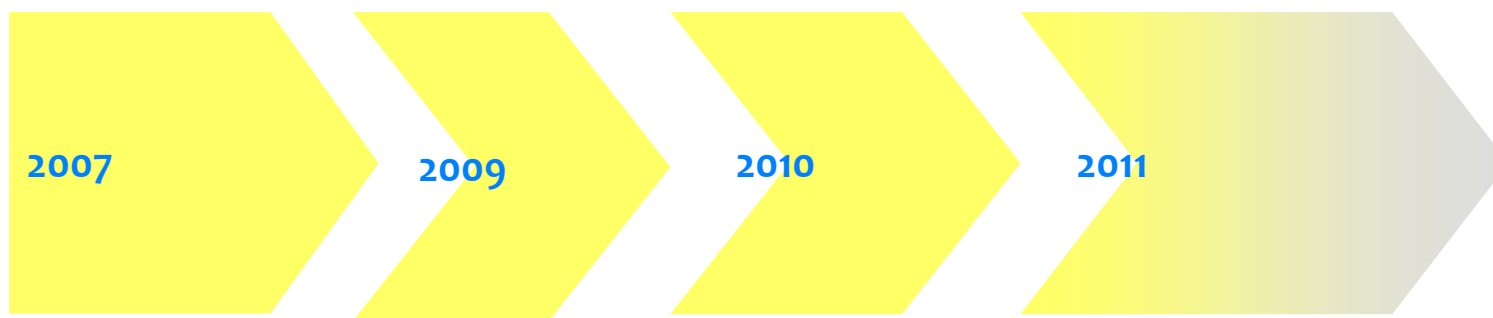
## 4.4.3.2 Benefits from RMB ODI & FDI

- Reduction of foreign exchange risks
- Broadens use of offshore RMB liquidity
- Increase demand of RMB financing needs, facilitating developments of debt, equity and bank financing in RMB





## 4.4.4.1 Issuance of RMB bonds



1<sup>st</sup> issuance of RMB bonds by Mainland financial institutions

1<sup>st</sup> issuance of RMB sovereign bonds

1<sup>st</sup> issuance of RMB bonds by Hong Kong & foreign corporates

Expected issuance by Mainland non-financial enterprises & more Mainland financial institutions





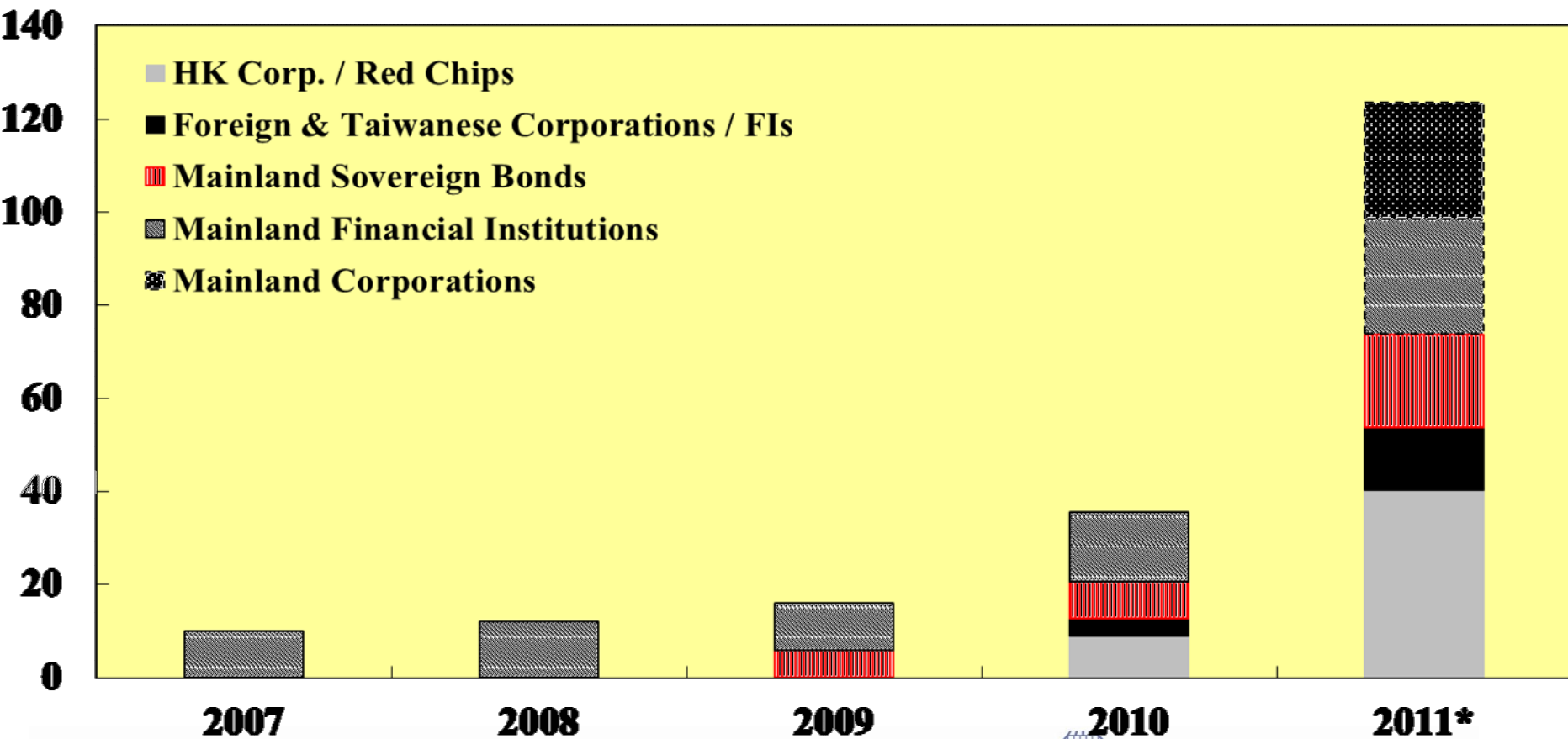
4.4.4.2



# RMB-denominated bonds - value by type of issuers

RMB billion

1 RMB = 0.116 EUR



\* HK Corp. / Red Chips and Foreign & Taiwanese Corporations / FIs : issuance during Jan-Aug 2011

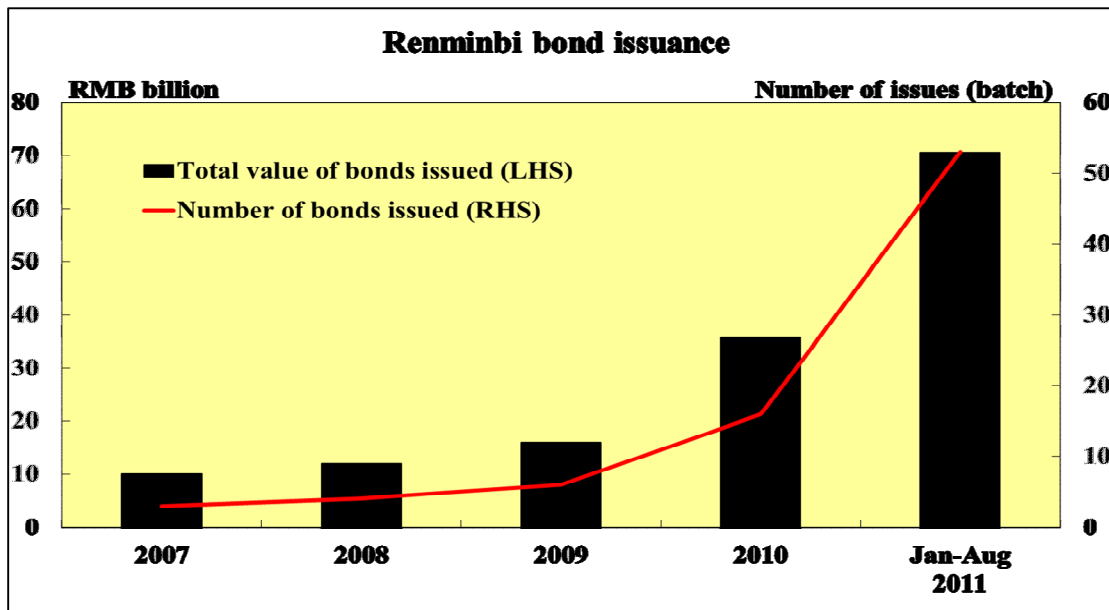
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# 4.4.4.3 Fledgling Dim Sum Bond Market



1 RMB = 0.116 EUR

**As at end-Sept 2011: 95 issuances  
(RMB 159.1 billion / EUR 18.5 billion)**

Multinational issuers	
HK	Hopewell Highway
Japan	Mitsubishi UFJ, Orix
Korea	Korea Eximbank, CJ Global
Malaysia	Khazanah's Sukuk
Taiwan	New Focus Auto Tech, Solargiga Energy
US	Caterpillar, McDonald's
Europe	Unilever, VTB Capital, Volkswagen

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## 4.4.4.4 RMB bond issuance facilitated further by new measures

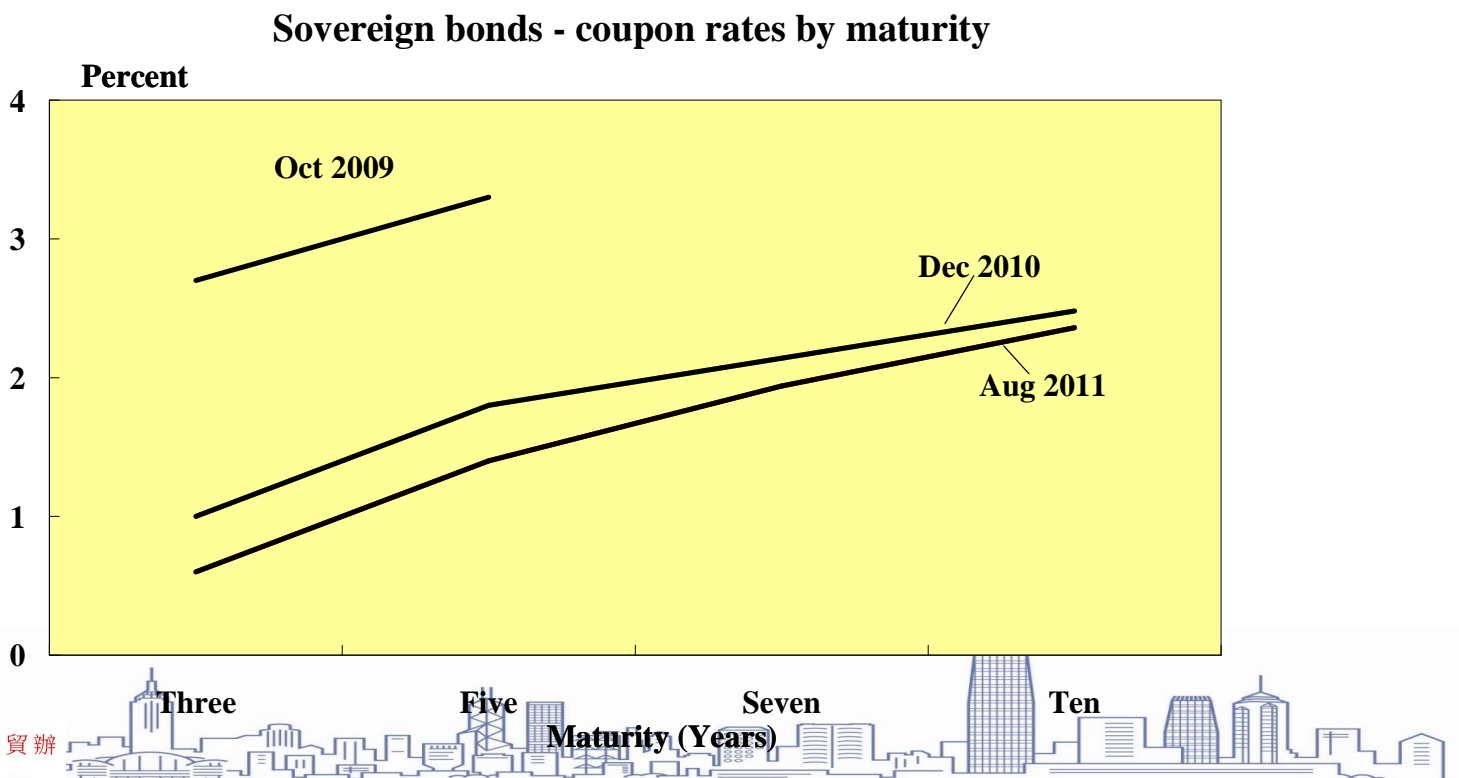
- Offshore RMB funds to access FDI and inter bank bond market on Mainland
- Make RMB sovereign bonds issuance a long-term and institutional arrangement
- Allow more Mainland financial institutions to issue RMB bonds, totalling RMB 50 billion (EUR 5.8 billion) new issues
- Allow Mainland enterprises to issue RMB bonds





## 4.4.4.5 Benchmark for pricing offshore RMB bonds

- Make it a long-term and institutional arrangement
- Serve as a benchmark for pricing other RMB corporate bonds





## 4.4.4.6 RMB-denominated securities



1<sup>st</sup> offshore  
RMB fund-by  
Haitong Asset  
Management  
Company

1<sup>st</sup> RMB  
REIT -  
Huixian

Expected  
launch of  
Trading  
Supporting  
Facility (TSF)  
by HKEx

Dual Tranche  
Dual Counter  
(DTDC) is ready  
and expected to  
launch in 2011 by  
HKEx





## 4.5.1 Hong Kong as RMB Offshore Centre

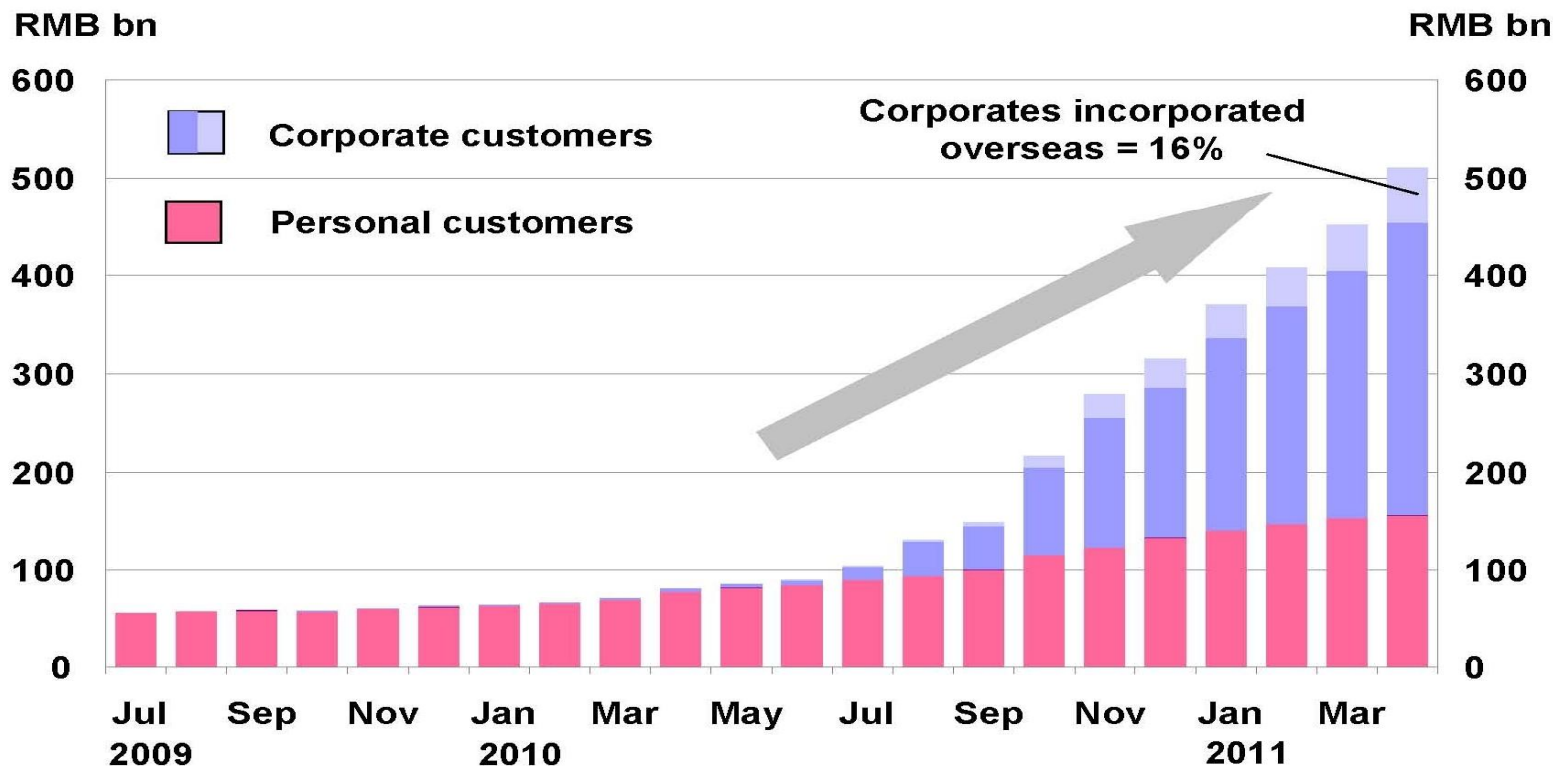
- Part of China, yet offers a natural firewall.
- Reliable testing ground for capital account opening and international use of RMB
- Allowing risk sharing among Chinese and their overseas counterparts
- Internationalisation of RMB, overall capital account liberalisation





# 4.5.2 Figures: Hong Kong as Offshore RMB Centre (2009-2011)

1 RMB = 0.116 EUR



Source: HKMA

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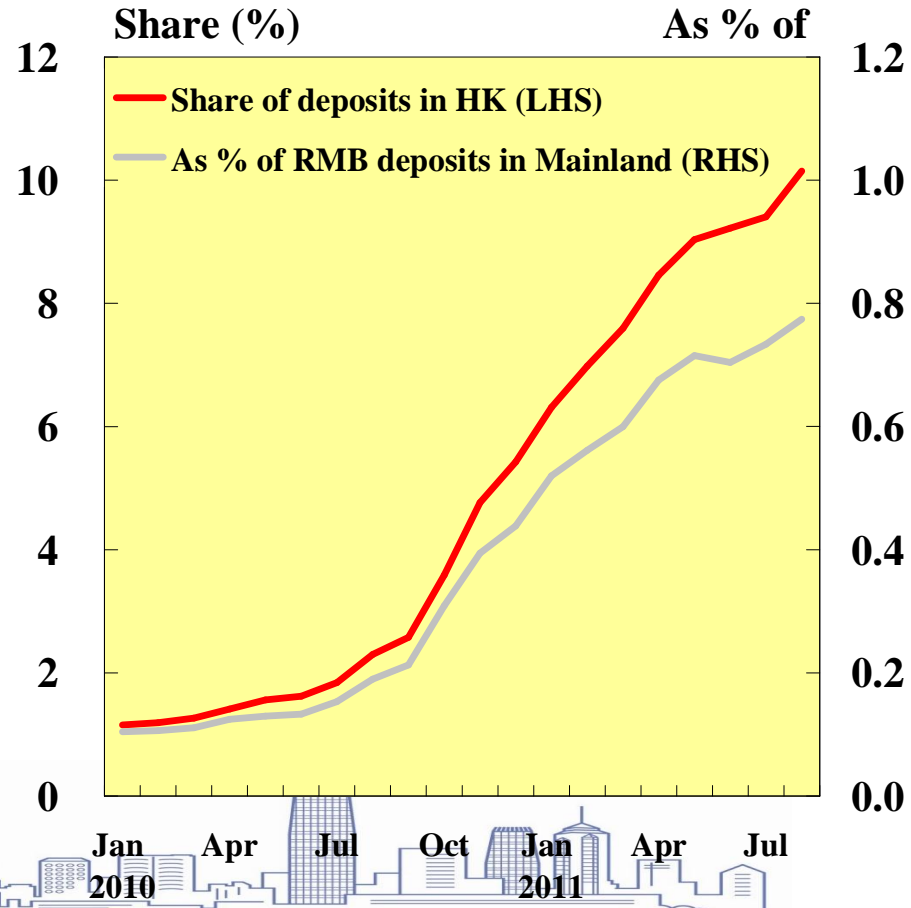
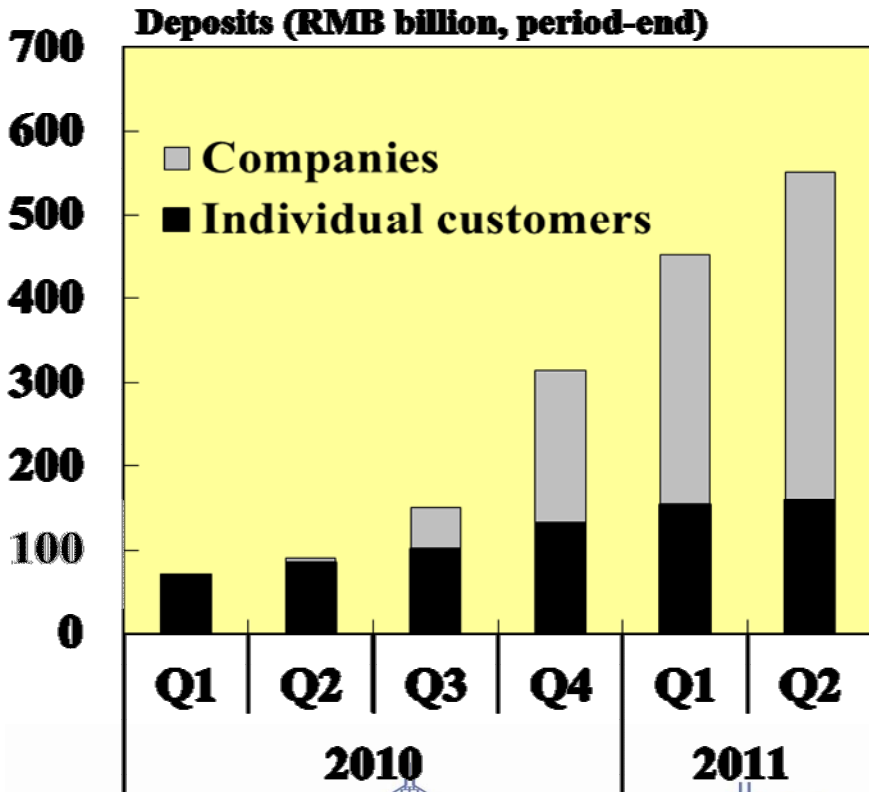


# 4.5.3 Figures: Hong Kong as Offshore RMB Centre (2010-2011)



## RMB deposits in Hong Kong

1 RMB = 0.116 EUR



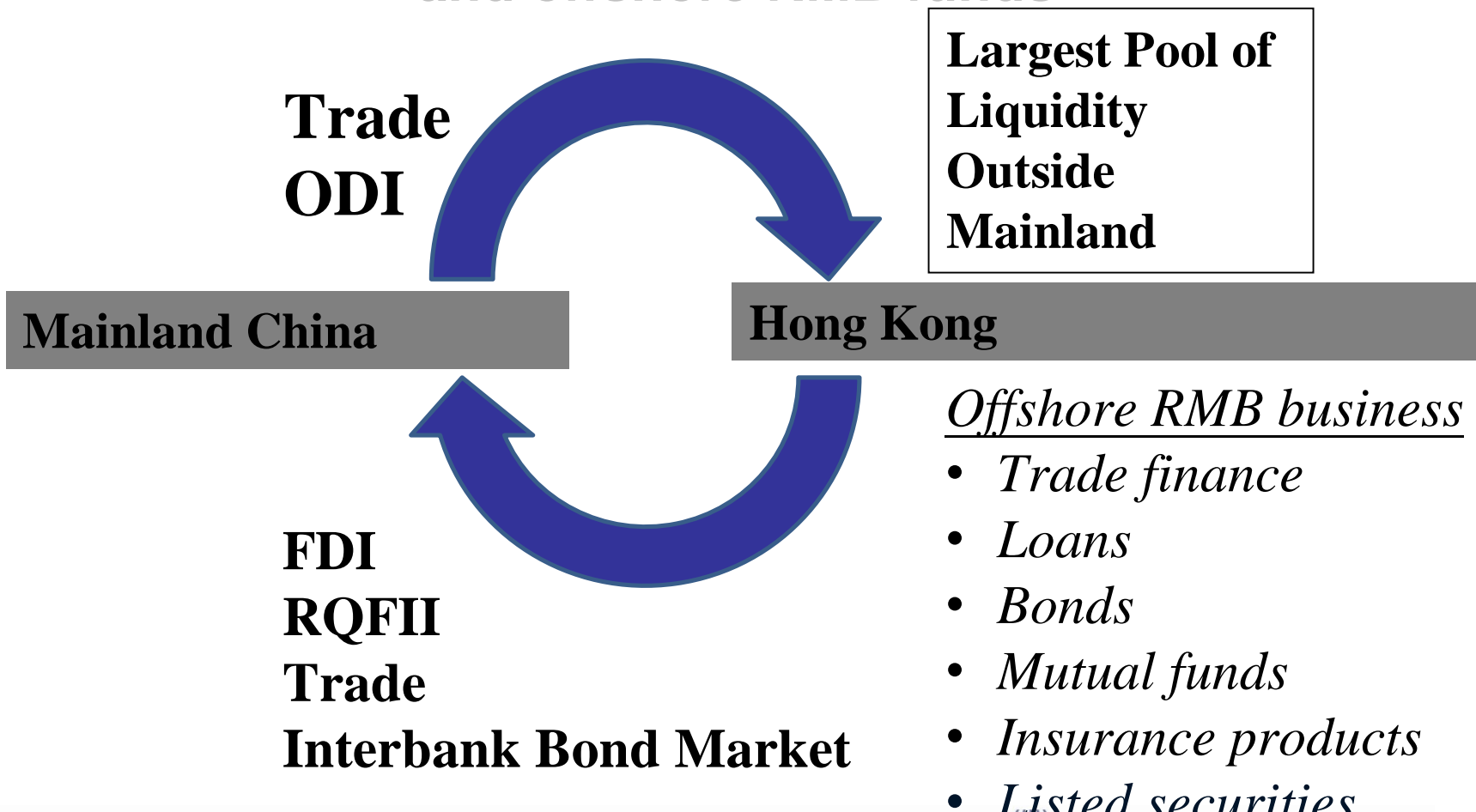
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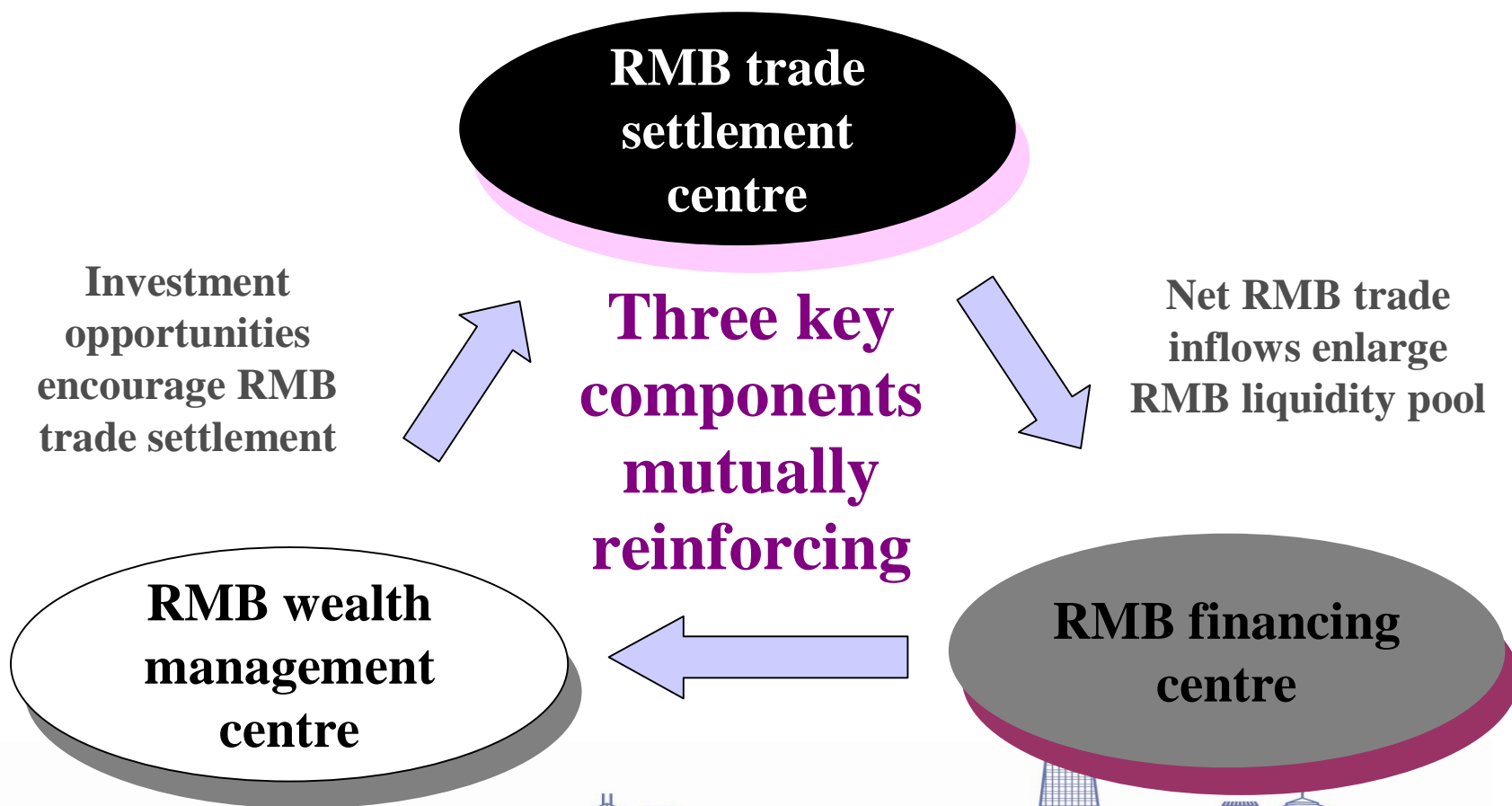


# 4.5.4 Enhance circulation between onshore and offshore RMB funds





# 4.5.5 Emerging offshore RMB financing and wealth management centre



Diversification of RMB financial products

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## 5. Asian Financial Forum (AFF) 2012

- Theme: ***Asia: Driving Sustainable Growth***
- Date: 16 – 17 January 2012 (Monday-Tuesday)
- Venue: Hong Kong Convention and Exhibition Centre
- Official website: [www.asianfinancialforum.com](http://www.asianfinancialforum.com)
- *AFF 2011: more than 70 internationally respected leaders in government, financial and business sectors; about 1,800 participants and 461 journalists from 32 countries*





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# For more information



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## Other useful Websites:

**Hong Kong SAR Government: [www.gov.hk](http://www.gov.hk)**

**Invest Hong Kong: [www.investhk.gov.hk](http://www.investhk.gov.hk)**

**Hong Kong Tourism Board: [www.hktb.com](http://www.hktb.com)**

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