Towards Hong Kong -
a Leading Global International Financial Centre

The Government's Financial Services Development Council some time ago produced a report on "Strengthening Hong Kong as a Leading Global International Financial Centre". While ICC-HK has offered comments on the Report, it was reported about 2 months ago that according to the research institute Z/Yen Group, Hong Kong was replaced in 2015 by Singapore to become the fourth global financial centre. It may be timely to rethink Hong Kong's strategy in the context of the Report and ICC-HK's views.

The Report holds the view that Hong Kong needs to have a holistic strategy for the financial services sector. The long term strategy to become a significant financial centre comprises 4 layers of building blocks:

(a) The **vision** for Hong Kong as an international financial centre.
(b) The **market opportunities** which Hong Kong should strive to capture.
(c) The **enablers** required to capture the opportunities and grow sustainably in the long-term.
(d) The **foundation** upon which all the above is built.

The Report considers that Hong Kong's overall success as an international financial centre owes much to its world class infrastructure, sound regulatory structure, and unique access to market opportunities. Its world class business environment includes (a) trusted rule of law, transparent regulatory structure and free flow of funds, (b) ability to attract top talent (c) efficient transport and professional services infrastructure (d) being a gateway to Mainland China, (e) high compatibility with the rest of the international markets.

ICC-HK accepts the Vision as a goal, but it has to be viewed against Hong Kong's competence and the environment in which Hong Kong is placed.

While Hong Kong has a sound regulatory structure as the Report asserts, it would appear that Hong Kong regulators are more concerned about compliance with rules and regulations. Admittedly it is important to protect investors, over-emphasis of this however could distract official attention from facilitating business to grow. Overseas regulatory measures are a useful source of reference, and Hong Kong should adopt those suited for it s environment. There is concern that the Administration is trying to tighten control of market behaviour too much but in too short a period of time. In the case of Renminbi business, there is suggestion that Hong Kong rules are more restrictive than those of other offshore centres. Overtime Hong Kong will lose its advantage as a pioneer. Overall, business have to adjust with difficulty but with added resources. Even the regulatory authorities have to adjust to increasing regulatory workload so much so its efficiency is affected. There lacks a transparent process of approval of products resulting in extended time required, and confusion over what rules or procedures business will have to comply to obtain approval of products. In comparison, Singapore authorities gave a guiding hand to facilitate business to implement their plans. There is also concern that Hong Kong should avoid giving the impression that some market participants are more favourably treated by the authorities because of their origin background.

There should be clearer division of labour between the Securities and Futures Commission vis-à-vis the Hong Kong Stock Exchange. At present, the Hong Kong Stock Exchange performs certain regulatory functions but at the same time it is a listed company with self-interest. It has conflicting roles.

The added regulatory burden will have repurcussions to professional services. Thus, small accounting/audit firms will have great difficulty to compete, particularly when attraction to joining the profession seem to decline. It was for the government to consider if its objectives can be achieved through industry self-regulation than imposing more regulation.

On the social environment as observed in the Report, there appears to be a lack of trust between the government and sections of the community. This will inevitably affect social stability which is a major consideration to business decision. Hong Kong will suffer if confrontation should continue.

Probably Hong Kong has placed emphasis in the past on business and economic growth, and many social problems have ensued and tended to aggravate over time. Social mobility opportunities available in the past seem to decrease for later generations. All these contribute to social dissatisfaction and growing division in value, leading to social conflict. The situation could only discourage overseas business and talent to operate and settle in Hong Kong.

It is pointed out that Hong Kong's long established values are fading, including non-corruption and the rule of law. Also Occupy Central has put into question the validity of those values and advantages of Hong Kong as relied upon in the Report. Some would be inclined to deal direct in the Mainland by-passing Hong Kong.

There is concern about the policy of the Central Government instituting more and more free trade zones, as the overall impact may diminish Hong Kong's role of being an international financial centre of China.

In general, the government should rethink if Hong Kong's advantageous attributes are still as robust as set out in the Paper.