

Strengthening Hong Kong as a Leading Global International Financial Centre

Hong Kong is one of the largest financial centres in the world. Its external trade, low tax policies, the rule of law, free market principles and free flow of information are the main factors to its success. Nonetheless, Hong Kong faces new challenges arising from both evolving global macroeconomic forces and emerging local threats. To continue ICC-HK's mission of projecting Hong Kong's business interests, ICC-HK has deliberated the Paper on this subject by the government's Financial Services Development Council.

The Paper 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 Paper 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 noted the 4 components of the overall strategy and the advantageous attributes of Hong Kong for business and investment set out in the Paper. ICC-HK has no dispute on

the Vision as a goal, but realize that 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 Paper 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 its 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 Reminbi 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 financial or monetary 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 repercussions 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 Paper, ICC-HK feels 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 decisions. 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 values, leading to social conflict. The situation could only discourage overseas business and talent to operate and settle in Hong Kong.

It is also 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 Paper. Some would be inclined to deal direct in the Mainland by-passing Hong Kong.

ICC-HK is concerned about the recent policy of the Central Government instituting more and more free trade zones, as the overall impact way be to diminish Hong Kong's role of being an international financial centre of China.

In general, ICC-HK believes the government should rethink if Hong Kong's advantageous attributes are still as robust as set out in the Paper. It has to take steps to fortify them if the government is to adopt the Vision, Enablers and Strategy in the Paper.