How to become a World City: Lessons from London
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1: Summary: Hong Kong faces a Binary outcome in the Golden 5 Years – Invest, Reach Up, Re-model and become a World City, or get Sidelined

This is the second report by HKGolden50, an independent, non-political and non-profit research organization whose mission is to illustrate through hard facts and figures the significant tasks the community and government of Hong Kong must undertake in order to convert the tremendous inflows of opportunities and talents into the city during 2010-2014, the “Golden 5 Years” as we characterise it, into a foundation for a more prosperous, vibrant and compassionate metropolitan for the next generation. HKGolden50 has two core beliefs: (1) the best 50 years of Hong Kong are ahead of us, and not behind us (2) taking over the baton to make Hong Kong a better place is the post-80’s, Hong Kong’s most-educated generation.

“How to Become a World City, Lessons from London” does not pose London as an opponent to Hong Kong. The two cities operate in time zones and neighbourhoods too widely different for direct competition to occur. Rather, our research regards London, the longer standing of the two World Cities, as the “model” for Hong Kong and ascertains the many shortcomings the territory must strive to put right. Adding to Hong Kong’s positive momentum are the unprecedented inflows of opportunities and talents in the Golden 5 Years and its unique setting of being the freest city in China and its situating

Situating at the heart of a fast-growing Asia, Hong Kong can service a combined GDP of US$14tn — it has all the potential of joining London and New York to become a World City.
at the economic heart of a fast-growing Asia. Within four hours flight from the city, Hong Kong can service a combined GDP of US$14trn, similar to that of London and New York City but seven times that of Singapore’s. We conclude that Hong Kong has all the potential of joining London and New York City to become a World City.

A World City attracts talents of every discipline and wealth from all parts of the globe. It is a city in which the global citizen has a business and emotional stake and where people from other places want to spend a lot of their time enjoying it. In a nutshell, a World City needs to have all the ingredients of “IFC-BEST”:

It must be

1. Inspiring and imaginative, fun, exciting, confident, capable, purposeful and young in spirit;
2. Free, open and welcoming to all cultures and beliefs;
3. Convenient such that its people are not bogged down by chores and inefficiencies, leaving more time for life;
4. Business-friendly, providing a myriad of opportunities to support talents from all around to congregate and develop their careers in diverse areas, from arts, culture and culinary skills to high finance and technology;
5. Energetic and self-critical but also capable of re-inventing itself so that it is always up-to-date with global values and ideas;
6. Safe and friendly so that its inhabitants can enjoy the city without fear or inhibition; and last but not least;
7. Trustworthy so that businesses and consumers know they will get what they pay for, so that no effort, cost or time needs to be wasted on verification or seeking recourse.
(1) It takes an International Finance Centre to make a World City

In section 2, we provide a comparison of top-down statistics of the two cities to establish basic understanding of the economies and set the landscape for our research. We then turn to assessing the finance industry and social features of Hong Kong and London as well as those of New York City and Singapore. We elaborate on the role of finance as a highly effective enabler of efficient economic activity by virtue of its requiring extremely high standards of performance (precision and urgency) and conclude that it is not a coincidence that both London and New York City, the two acknowledged World Cities, are International Finance Centres (IFCs) and Hong Kong should learn from their evolution and widen and deepen its IFC capacity and capabilities in order to hasten its rise as the next World City.

Great cities of manufacturing, culture, trading of goods, agriculture, never became World Cities. An IFC, on the other hand, is a city with an attitude – it does not accept compromise or mediocrity and aspires for excellence and perfection. It has to be a top performer because its key product is ideas and its markets move at the speed of thought and re-price every second. In all, an IFC is the standard bearer and pace setter for a World City.
World City creates Prosperity for All – but future prosperity requires quickly improving Service Standards via Investing in bigger and better Hardware and Software

This insistence of services of the highest quality attracts both (1) talents and corporates that believe they can provide such level of services and (2) consumers of such services, including the wealthiest individuals and the largest corporates from around the world. This exacting standard of performance requires the orchestration of an intricate web of support services, eg an efficient legal system and the rule of law (which provides predictability and independent recourse), education, healthcare, freedom of movement of ideas, capital and goods (thus minimizing friction and costs while maximizing speed of delivery of services). Hence, an ecosystem of employment and prosperity across all sectors would rise with the emergence of an IFC.

Hong Kong is an open economy that has no natural resources and has to pay for everything it imports and consumes. This is done mostly by its workforce “exporting” its services. Hence, the main means to growing this economy is to procure more customers to use Hong Kong services.

We argue that the task of “exporting services” is amongst the most difficult ways of “making a living”. Unlike mercantile trade, where goods can be manufactured locally and exported, most of Hong Kong services are not “shipped out”. For instance, the production of a bowl of won-ton noodles for the consumption by a Japanese tourist does not involve packing the bowl of fresh noodles and sending it to Japan. Rather, the “exporting” of this culinary service involves the Japanese tourist taking a holiday break from his or her work, paying for air travel to Hong Kong, shouldering the expense of staying in a hotel and lastly, the actual consumption, in Hong Kong, of the bowl of won-ton noodles. To earn this income by “exporting a service”, Hong Kong must physically “import” a customer!
The quality of this “exportable” service has to be very high in order to justify the significant time and travel expenses incurred by the consumer to come to Hong Kong. To perform a service, we need both hardware (office, shop, hotel, dealing rooms, hospital, school etc) and software (professionals, salespersons, chefs, waiters, fund managers and traders, doctors and nurses, teachers and lecturers etc). In order to produce more service exports and grow incomes, Hong Kong must quickly step up its investment in property and training of people, in the face of unprecedented influx of business opportunities and talents into Hong Kong, so as to maintain and improve the quality of its services. For a more detailed discussion, please refer to our first report “Hong Kong – The Golden 5 Years (2010 – 2014) and the Decline that may follow…?”.

In that piece of research, we highlighted the significant hurdles in Hong Kong’s path as (1) its hardware is heavily strained, with space utilization standing at historic high levels and which has led to double-digit rent rises, stoking inflation, and (2) its software stressed as its workforce is at the highest level of employment since the handover and, to make matters worse, the workforce will start to decline when more and more people retire in the next two years.

A visiting customer will be disappointed when shops/offices/hospitals are packed and there is not enough staff to serve him or her. International customers have a wide choice of cities competing for their money. For Hong Kong to continue to earn money from exporting its services, their quality has to be excellent and they have to offer good value.

*Hong Kong must quickly invest in its service hardware and software to ensure a world-class service sector and to capitalise on unprecedented inflows of opportunities in these Golden 5 Years*

*Hong Kong will easily lose visiting customers if it allows its service standards to drop*
(3) Hong Kong must improve on both
(i) very significant income underperformance relative to peers
(ii) inequality in domestic income

Recently the subject of income inequality attracted much public discussion in Hong Kong. We hope our study of the two existing World Cities should put a wider context to this discussion. In London, the top 10% and 20% of income earners receive 39% and 54% of the total income of the city respectively, while the second half of the population account for 17% of total income. Hong Kong’s income dispersion is similar to London’s, with top 10% and 20% of Hong Kong households earning 41% and 57% of the city’s income respectively, while the second half of the population sharing 16% of the income pie. The figures for New York City paint a similar picture.

Distribution Across Three Household Income Groups

<table>
<thead>
<tr>
<th>Household Income Group</th>
<th>Top 10%</th>
<th>Top 20%</th>
<th>Bottom 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hong Kong, 2006</strong></td>
<td>41%</td>
<td>57%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>New York City, 2010</strong></td>
<td>40%</td>
<td>56%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>London, 2009</strong></td>
<td>39%</td>
<td>54%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Singapore, 2010</strong></td>
<td>37%</td>
<td>53%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: HK CSO, US Census Bureau, New Policy Institute, Trust for London, Singapore Dept. of Statistics, HKGoldman

In fact, Hong Kong’s income distribution as measured by the Gini Coefficient (0 being the most equal and 1 the most unequal) is also in line with those of the two World Cities and that of Singapore.

*It appears that most top international cities have uneven income distribution*
These top-down statistics seem to suggest that disparity of income is common amongst most successful cities. The main reason this is so is not that successful cities tend to produce more poor people but quite the contrary, these cities are of such high quality that talented and well-off people from all around the world will want to work and live in these places, adding to the band of high income earners, thus widening the gap.

While Hong Kong should continue to enhance social mobility especially through providing subsidised education and other means of self-improvement so that those who put in the effort can have a better chance of advancing in society, it is even more important, we argue, that the entire community should focus on the substantial gains that Hong Kong can reap, when its citizens, businesses, public bodies and its motherland work together and walk that “extra mile” to bridge the significant income gaps with the two existing World Cities. With the capturing of further business opportunities come new jobs, better social mobility and improved means to provide for the less fortunate in society.

**Hong Kong has underperformed very badly for the past decade — time to chart a Better Course!**

The per capita incomes of London and New York City at the end of 2010 were some 75% and 146% above Hong Kong’s HK$247,000. The gap remains high, at some 20-70%, even after adjusting for purchasing power parity or cost of living. A study of the value-added and employment composition shows that proportionally, Hong Kong has only a third of the size of London’s business activities/service sector and a slightly smaller finance sector of around 17% and ever allowing for differences in classifications, still these must be some of the key high-skill/high-income areas that Hong Kong should focus on to add to jobs and GDP.

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**Gini Coefficients**

<table>
<thead>
<tr>
<th>City</th>
<th>Year</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td>2010</td>
<td>0.54</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2006</td>
<td>0.53</td>
</tr>
<tr>
<td>London</td>
<td>2009</td>
<td>0.52</td>
</tr>
<tr>
<td>Singapore</td>
<td>2010</td>
<td>0.48</td>
</tr>
</tbody>
</table>

Source: US Census Bureau, HK CSD, New Policy Institute, Trust for London, Singapore Dept. of Statistics, HKGolden50
Turning to the Asia time zone, important lessons on economic development can be learnt from the significant underperformance of Hong Kong vis-à-vis Singapore over the past decade. Despite a population only 72% of Hong Kong’s and a land area 35% smaller, Singapore managed to grow its nominal GDP at a robust 9% per annum (as opposed to Hong Kong’s 2.8%) from 2000 to 2010 and caught up with Hong Kong’s GDP of HK$1.7tn by the end of that period.

It is important to remember that measured by income per capita, Hong Kong was ahead of Singapore for most of the 90’s and the earlier part of 2000’s. However, the tide turned from 2003 onwards when Singapore overtook Hong Kong and opened a significant lead since. Standing at HK$342,000, the Lion City’s per capita income is almost 40% above Hong Kong’s with its average wealth per capita weighing in at twice that of its northern peer. In the decade 2000-2010, Singapore’s nominal GDP per capita surged 87% while that of Hong Kong rose only 25%, off overall GDP growth of 136% and 32% respectively, over that period.

Singaporeans’ income per capita is 40% higher than Hong Kong’s and Singaporeans are 100% wealthier.

Hong Kong was ahead of Singapore for most of 1990 – 2003, but has fallen badly behind since.
The extent of Hong Kong’s economic underperformance is all the more disappointing against the backdrop of the robust growth of its Chinese hinterland which posted a nominal GDP growth and per capita growth of 294% and 278% respectively over the past decade. In other words, despite its (1) exposure to finance, one of the fastest-growing industries in the world in the last ten years and (2) proximity to the surging Chinese economy, Hong Kong has only managed to return a nominal GDP per capita growth of around 2% p.a.

From a separate angle, over this decade, Hong Kong’s nominal GDP per capita grew 25%, against London’s 53%, New York City’s 38%, Singapore’s 87% and China’s 278%.

Despite its near-perfect positioning in fast-growing (1) finance industry and (2) the Chinese economy, Hong Kong only managed to eke out 2% nominal growth of GDP per capita per annum over 2000-2010.

Helping to propel Singapore forward so strongly was a deliberate but judicious use of an immigration policy that enabled it to absorb some 380,000 as Permanent Residents (“PR”) and 110,000 as citizens, skilled/educated (75% have post-secondary education versus overall Singapore 48% and Hong Kong around 23%) and/or well-to-do individuals from 2004 to 2010. This significant source of economic and cultural enrichment has added 490,000 or 15% to Singapore’s mid-2004 resident population of 3.37m. While some social discomfort must arise when almost one-sixth more people were added to the population over six years, the result is far from disruptive and for a sophisticated society that Singapore is, the social adjustment to the new immigrants is not likely to be long.

Income/wealth-accrative immigration scheme – an accelerant to boosting diversity/quality of economy
In stark contrast to Singapore’s clear socio-economic development strategy, and proving heavily dilutive to per capita GDP growth, Hong Kong’s policy of taking in, under a daily quota of 150, residents from the mainland to join their families in the SAR since the handover, accounted for the bulk of the 685,000 new immigrants to Hong Kong from 1997 to 2010. Clearly this is primarily a social policy which might not have taken seriously into account the economic implications in both the short and long term; it nevertheless has led to the consequence of adding a highly significant 11% to Hong Kong’s population of 6.49m at the handover and this issue should be explicitly assessed and publicly discussed.

Data from Hong Kong 2006 Population By-census show that 54% of those in working-age who had settled in Hong Kong for less than seven years were not economically active (ie. not contributing to GDP), comprising mostly housewives and students. By skill level, 7.9% of those in working-age had received post-secondary education, as opposed to 23% for Hong Kong as a whole.

Using the data above and making simplistic assumptions, we have performed a simulation to work out, very roughly, the effects on total and per capita incomes an immigration policy that targets high-earners against one that does not.

While Singapore has added 490,000 (15%) socio-economically strong (75% have post-secondary education) to its citizenry, Hong Kong has added 685,000 (11%) low-skilled (8% have post-secondary education) to its population.

A simplistic simulation to estimate effects on per capita income is performed.
Assume Singapore and Hong Kong each to have a population of 100 and GDP per capita of $10, hence an overall GDP of $1,000. Further assume that Singapore and Hong Kong each to add immigrants amounting to 15% and 11% of the original populations respectively so the new populations of the cities become 115 and 111 (please refer to the two tables below).

Based on government and publicly available survey figures and after making assumptions and adjustments to aid comparability, we have roughly estimated that the contribution to GDP per immigrant to Singapore is twice that of the average citizen while each immigrant to in Hong Kong contributes only 45% of average income - thus in the tables below, $20 and $4.5 for Singapore and Hong Kong, respectively.

### Simulation of the Effect of Immigration Policies

<table>
<thead>
<tr>
<th>Immigration Policy Simulation</th>
<th>Singapore Before and After Immigration</th>
<th>Hong Kong Before and After Immigration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before</td>
<td>Immigrants</td>
</tr>
<tr>
<td>Population</td>
<td>100</td>
<td>15</td>
</tr>
<tr>
<td>GDP Per Capita</td>
<td>10.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Total GDP</td>
<td>1,000</td>
<td>300</td>
</tr>
<tr>
<td>Increase in Total GDP</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Change in GDP Per Capita</td>
<td>+13%</td>
<td></td>
</tr>
</tbody>
</table>

The result of the simulation shows that a policy that targets high-output immigrants has added 13% to per capita income while a social policy that does not carry a skill threshold has led to a 5% drop in per capita income. In terms of total GDP, the former policy has added 30% to incomes while the latter only 5%. It is likely that over the longer term, this divergence in income performance will widen as the latter policy is likely to lead to slower output growth and higher welfare costs and, within Hong Kong, further disparity in incomes between the high- and low-income earners.

Professor Francis Liu of the University of Science and Technology Department of Economics has observed that one year of study in university could add 15-18% to earnings whereas an extra year’s study in lower level education would add only 4-5%.

Roughly estimated, an accretive versus a dilutive immigration policy has led to a 18% underperformance in Hong Kong per capita income in the short term and probably further divergence in the longer term.
In charting the way forward and creating job opportunities for the young and its most educated generation, Hong Kong must, as a top priority, diligently deliberate on the existing population policy which has contributed to the formation of an immigrant “underclass”.

Hong Kong must have a pro-income, pro-jobs, pro-education, pro-diversity population policy

It is estimated that there are some 1 million poor people in Hong Kong. It is not difficult to expect that the 700,000 new immigrants since the handover now form a significant part of this group and have accentuated income inequality. They form an integral part of the Hong Kong community and affirmative action should be taken to strengthen the weaker-skilled groups and to help the underprivileged immigrant children so that they can have the full resources to attain as high a level of education as they are capable of achieving. If Hong Kong invests in putting up new hardware, so that the inflow of business opportunities in the Golden 5 Years can be properly accommodated, there should be plentiful new jobs for every segment of society and means for individuals to improve their lot.

Hong Kong must undertake Affirmative Action to help the underprivileged groups to improve social mobility

Faced with a workforce that will start to shrink 0.4-0.8% or some 20,000-40,000 each year, from 2012/2013, one of the fastest declines in the world, Hong Kong will struggle to keep up its service standards. A significant stepping up of investment in university education, including offering scholarships to talents from the mainland and on-the-job training of the existing workforce, should help improve labour productivity and keep Hong Kong competitive. Furthermore, as Hong Kong is likely to lose over 200,000 workers over the next ten years or so, it is imperative that a highly selective new programme to attract global talents and the well-to-do’s, assured by the Singapore experience in this area, should be adopted. This should accelerate Hong Kong ascent to become a World City.

Hong Kong must (1) explore the merits of Singapore’s high income/wealth-accretive immigration policy to accelerate its ascent to a World City, and (2) step up investment in university education, on-the-job training and take affirmative action to help underprivileged immigrant children, to counter the rapid decline in its workforce and add to its service capability in the Golden 5 Years
The flow of talents and the well-to-do from the rest of China into Hong Kong is a natural process. This clustering effect has led to congregation of talents and well-to-do’s to key nodal cities and contributed to the growth of Beijing and Shanghai. In Section 5, we set out the findings of a survey we conducted on a group of mainland graduates of the University of Hong Kong (HKU). HKU has the longest history amongst the local universities in admitting mainland students and our survey found that, encouragingly, 88% of respondents believed education at HKU had offered them advantage over mainland degrees. Another key finding is that some 83% of respondents would like to obtain Permanent Resident status. These two results suggest that a policy to attract and retain talents will be effective. The two measures above aimed at enhancing labour and service quality are two essential public policies for Hong Kong to enact in the Golden 5 Years.

(4) Creating a World City is Herculean task

Four centuries of capitalism and pursuit of human freedoms have managed to produce only two acknowledged World Cities, firstly London, then later came New York City.
For the past two centuries, London has been the true World City – a highly successful meeting place of commerce and depository of wealth from all corners of the world, a trendsetter of global culture, a place where commercial and social ideas flow together, become refined by enterprise and discourse, and impact the world. While there have been many great cities rising and fading in modern history, few, if any, rival London when it comes to the degree of internationalization and the extent its systems of organizing business, law, knowledge, values and language have influenced the world.

This has remained so despite the rise of the US as the largest economy in the world in 1870 (Cassis, Youssef, “Capitals of capital: the rise and fall of international financial centres, 1780-2005”. Pages 80-86, 110-116), overtaking the UK which at the time, provided nearly one-third of global production. New York City, as the commercial and financial capital of the US, ascended into the ranks of an IFC largely through the sheer scale of its economic growth. By 1914, the US GDP was already the total of UK, Germany and France, the next three largest economic powers of the day.

Having come under British rule for 155 years, one of the longest periods of colonial histories in the world, Hong Kong has inherited a comprehensive system of Common Law and some of the best values and market practices of the developed West. It therefore shares the same international system of business conduct with the developed world and should head the race as the preeminent hub of financial and high credibility business (eg healthcare, product certification, valuable goods) in Asia, where service standards are often lower. For example, while the service sector accounts for some 93% of Hong Kong’s GDP, the highest in the world, it is only 43% in China and around 60% in Shanghai and 72% in Singapore.
Recognising these positive qualities of Hong Kong, Time Magazine coined “Nylonkong” to describe the tripodal links between the three IFC’s. We have taken excerpts from Time Magazine’s “A Tale Of Three Cities” 18th January 2008 to show perceived strengths of Hong Kong:

- “Connected by long-haul jets and fiber-optic cable, and spaced neatly around the globe, [New York City, London and Hong Kong] have created a financial network that has been able to lubricate the global economy, and, critically, ease the entry into the modern world of China, the giant child of our century. Understand this network of cities – Nylonkong, we call it – and you understand our time.”

- “…even in the darkest times, the Nylonkong cities had the sort of hidden strengths that would be their salvation. All had a certain adaptability hardwired into their people.”

- “…the sense of being a blue-water place … has made them open to trade, with all the transformative capacity that trade has to shake up established orders and make the exotic familiar.”

- “Hong Kong, which barely existed 150 years ago, has always been a haven for migrants fleeing trouble in China. Even in these prosperous times for the mainland, it still has pull… And increasingly, it is a magnet also for Chinese whose families have lived for generations in Canada, the US and the U.K.”

- “Great cities, of course, are about more than money and finance. They are messy agglomerations of talent and culture. That is how they attract men and women in the financial sector who could choose to live anywhere.”

- “Hong Kong, for its part, has gotten rich on the back of China. But … the mainland has scores of other rising cities, all ambitious for their moment on the world stage. Hong Kong must continually raise its game to maintain its relevance to the burgeoning Chinese economy.”

- “…these are places that know how to meet a challenge. They’ve done it before. From being dismissed as long past their prime a quarter of a century ago, New York, London and Hong Kong have gone on to extraordinary heights.”
In Section 2, we will assess whether Hong Kong has the essential skills (technology) to be the preeminent IFC in Asia and whether the city has the “Deepcraft,” as Professor W. Brian Arthur of Stanford University described, to sustain its leadership position. In “The nature of technology: what it is and how it evolves” 2009, he says “One thing very noticeable about the buildout of new bodies of technology is that their leading edge is highly concentrated in one country or region…” (Pages 156-165) “Real advanced technology …issues not from knowledge but from something I will call deepcraft… it is a set of knowings.

Knowing what is likely to work and what not to work. Knowing what methods to use, what principles are likely to succeed, what parameter values to use in a given technique. Knowing whom to talk to down the corridor to get things working, how to fix things that go wrong, what to ignore, what theories to look to. This sort of craft-knowing takes science for granted and mere knowledge for granted. And it derives collectively from a shared culture of beliefs, an unspoken culture of common experience…A knowing that again becomes part of a shared culture…To any problem or difficulty … there would surely be an answer somewhere in the [location].”

“Knowing” what works and what does not is second nature to Hong Kong IFC
(5) Third-Parties Have Vouched for Hong Kong’s Excellence as an IFC

There is growing recognition of Hong Kong’s growing importance as a top IFC. In addition to Fortune Magazine’s cover article in 2008, this May, KPMG, one of the “Big Four” global accountancy firms, relocated its International Chairman’s Office to Hong Kong. This September, Z/Yen, the consultant that compiles the Global Financial Centres Index (GFCI) and ranks 75 centres around the world, further narrowed the gap in ratings between third-placed Hong Kong and two leading IFCs, commenting that “There is no significant difference between London, New York and Hong Kong”.

From a range of independent studies, it seems clear that the city is already the premier IFC in Asia and for the past four years, Hong Kong has been rapidly closing the gap with London. The significant business opportunities opened by China’s 12th Five Year Plan (FYP) and in particular, the beginning of the development of an offshore Rmb market in Hong Kong, will only add further momentum to the IFC’s capabilities and scale. Hence, there is little reason to doubt Z/Yen’s comment that “Hong Kong is now just three points behind New York and four points behind London. These three centres control a large proportion of financial transactions (approximately 70% of equity trading) and are likely to remain powerful financial centres for the foreseeable future.”
(6) Hong Kong - China’s World City in the making?

We outlined previously the huge efforts and time involved in the making of a World City. London is the product of a business empire that spanned the globe for over two centuries and a system of laws and business practices that has been adopted across the western world and the Commonwealth nations. The predictability and protection of business and individual rights stemming from these laws and codes have given people from all around the world the confidence to invest/live/study/play in the UK, and its capital city, London, has become the focal attraction. New York City arose from the rapid ascent of the US in the past century to become the biggest economy of the world and the rapid pace of growth of the finance industry in the past 50 years.

Both cities attained their cosmopolitan flavour because people from all around the world trust their systems of fairness and protection of business and individual rights as they have an independent judiciary as final recourse. They have become cities the world as a whole has a stake in.

In theory, Hong Kong has all the potential to become the next World City – by virtue of its 155-years of colonial history, it shares the same legal and business DNA of the capitalistic west and talks the same language when it comes to organizing business and personal matters. A key customer to Hong Kong services is China, the second largest economy of the world. It takes bigger demand to lever the already excellent service platform of Hong Kong to become a World City.

Gaining the Trust of the World – takes more than having laws and codes, but having “time-tested” laws and codes

Confidence from the rest of the world in the World Cities builds up as their fairness systems are observed to yield consistent results for well over a century. Hong Kong has all the software to be World City, but it needs the Bulk of Hinterland to reach that status
The question remains if China wishes, in its many strategic considerations, to have a World City. The lack of an independent judiciary and the rule of law that the world can trust to the same extent as found in the western world, and the lesser state of economic development compared with the US, suggest that the pre-conditions to a London and New York City are not met by any mainland city. The one city that offers a more realistic chance of reaching World City status is Hong Kong but it cannot get there without the full support of its hinterland. China should consider the desirability of having a World City and if it decides that it is so, focus its resources on the city’s development as history has shown it is a Herculean task to grow even a single World City. A strategy of having many IFCs is likely to diffuse and defeat an effort to have a financial centre that can influence the world.

Extracts from the 12th Five-year Plan show that China would “(continue) to support Hong Kong in developing its financial services,…tourism, professional services,…and other high-value-added services; (support) Hong Kong to develop into an offshore Renminbi (Rmb) business centre and an international asset management centre…reinforcing and enhancing Hong Kong’s status as an international centre for financial services… and strengthening the global influence of its financial centre.” The opening of China Development Bank International Holdings in Hong Kong on 7th December 2011 was a significant milestone marking the state sector’s endorsement of Hong Kong. This company will form the platform for the state bank to invest outside of China and to attract overseas investment into China.
While China’s intentions are clearly supportive, the conceptualizing and implementation of such an effort has remained problematic, in our opinion. Please refer to pages 8 to 12 of our first report for a discussion of the development handicap to Hong Kong as it remains easier for Hong Kong people and businesses to “go North” than it is for mainland people and businesses to “come South”. Insofar as the porosity of the economic border with the city remains less than that between Hong Kong and most of its trading partners, “One-Country, One-Market” is not working out and this will continue to cap Hong Kong’s development. While the two sides should continue to work on CEPA, we argue it is significantly more important for both to “level the playing field” so that the flow of talents, customers and businesses from the mainland is made easier so that they can freely utilise the world-class service platform of Hong Kong.

One-Country, One-Market – yet to work out fully

While the two sides should continue to work on CEPA, we argue it is even more important to facilitate the natural flows of talents and businesses into Hong Kong
A lesson we learn from the emergence of the two World Cities is that it is extremely difficult and takes over a century and a solid track record to gain the trust of the world. An example of this trust is provided by the public listing of Prada shares in Hong Kong this year. While the company can raise capital from its home market Italy or either of the two World Cities, London or New York City, it chose Hong Kong. A skeptic can argue it matters little where the money is raised if the exercise is simply to extract capital from investors and since there is an abundance of savings in Asia, taking money from Hong Kong makes sense. More importantly, however, it is likely that the largest asset in the Prada family, after the listing, is its holding of Hong Kong-dollar denominated shares tradeable only in this Asian IFC. This demonstrates the high level of trust Prada has placed in Hong Kong.

The Prada IPO symbolises the trust a foreign citizen group has invested in Hong Kong and it is doubtful if the owners of these overseas enterprises would be as confident in listing their core wealth in a mainland market, should the avenue be open in future. The press has reported that Graff Diamonds, the international jewelers and Ferrari, the sports car company, are planning to list in Hong Kong soon, adding momentum to Hong Kong’s growing credibility as a city in which the world trusts and has an emotional and financial stake.

This stream of listings also demonstrates that the concept of “One-Country, Two-Systems” is highly credible in the eyes of the world and the mainland should leverage on this unique and valuable situation to further the development options of its enterprises, for instance, by allowing the efficiencies and the value systems of global enterprises to flow through mainland enterprises via their mutual exposure to Hong Kong.

The world’s trust in “One-Country, Two-Systems” is a valuable tool to improve efficiencies and value systems for mainland and overseas enterprises but more companies must be allowed to come south.
Trust in mainland cities by China’s Asian neighbours may be difficult to earn when a string of countries along the East Asia coast, including Japan, the Philippines, Vietnam, Malaysia, Brunei and India, dispute its oil and gas exploration rights and some of which were at war with China within living memory. A recent increase in military interest by the US in East Asia, stepped up by the announcement in mid-November of a new US military base in Northern Australia, may add to threats of encirclement.

Freedom and fairness endear global citizens but the opposite and arbitrariness do not. Articles like the one on the Financial Times 29th November, that “China has banned advertisements during dramas and films on television in the Communist party’s latest move to assert control over the country’s increasingly commercial media industry” and comments by the media regulator after forcing Supergirl, the nation’s first and most successful talent show, off air, that entertainment should take a back seat to “values, responsibility and quality” and that it wanted to “fully utilize the TV networks to build a public cultural service system, raise the quality of public cultural services and guarantee the people’s basic cultural rights” deter global citizens.

A considered decision and a new commitment by China to let Hong Kong become a World City by allowing it the economic freedom of “One-Country, One-Market” is critical for Hong Kong to extend its Golden 5 Years. With 93% of its GDP earned by servicing global needs, this world-class IFC is capable of taking on far more load from its hinterland. The more that Chinese enterprises bring their domestic business networks to hook up with the world through Hong Kong, the more overseas enterprises will come to Hong Kong to connect with China.
Without the stepping up of business quantum, Hong Kong’s ascent to World City will be frustrated and there may not be a World City in Asia for quite some time to come. The rise of New York City was hastened by the size of the US economy. It remains to be seen if key decision makers in Beijing can rise above the clamour from domestic cities, which are far more politically powerful than Hong Kong, to be IFC’s and recognise the strategic development options on the table. China can have one IFC or none at all.

One such example of how the natural and uninduced inflow of people and opportunities from China has triggered global inflow of talents into Hong Kong is provided by the influx of French nationals. On 18th November, the French consulate celebrated the registration of the 10,000th French national arrival to Hong Kong. It reckons that this latest number represents a 60% rise in residents from France since 2008. Evidencing Hong Kong’s World City flavour, Hong Kong now has the biggest French community in Asia, accounting for two-thirds of the total of some 15,000 French nationals. Anecdotal comments from contacts in other consulates suggest similar uptrend.

A lesson can be learned from Tokyo. Japan was the second biggest economy in the world for many years until China surpassed it last year. Despite its size, Japan did not invest enough efforts to open up its markets, adopt global best practices or focus on internationalising its largest city, Tokyo, with a population of 13 million.

Japan was second largest economy until last year, yet, Tokyo never rose to the ranks of London and New York City. Without “One-Country, One-Market”, Hong Kong will likely meet with the same fate.
As a result, Tokyo never rose to the ranks of London or New York City. With an extensive network with the world but without the free-flow of capital/talents/opportunities from the mainland, Hong Kong is likely to meet the same fate.

**A huge economy, without globally accepted laws and systems, will not be enough to produce a World City**

(7) **Hong Kong is already World-Class on many fronts**

There are so many world-class attributes to Hong Kong that make the city uniquely competitive even against the two World Cities; the two most important factors being convenience and safety. In Section 2, we elaborate on the strengths of Hong Kong’s finance sector. In Section 3, we explore the strengths of the non-financial services sectors and find that the physical and informational connectivity of Hong Kong is unmatched by most cities and that it is much safer to live in Hong Kong than London. Hong Kong has the most efficient transportation system (only 0.3% journey delays on the MTR) and the geographical advantage of being positioned in the centre of Asia. Access to internet and mobile network is also one of the cheapest in the world.

**Hong Kong already has the building blocks of becoming a World City**

Services in Hong Kong are of such high standards that its tourist numbers are surging year after year without fail. There are plenty of choices for tourists but they like to visit Hong Kong because the city is a culinary capital and a shopping paradise. Food is amazing in Hong Kong because people are very particular about it; for instance, Hong Kong boasts the cheapest Michelin star restaurant in the world and has the only Italian restaurant with three Michelin stars that is outside of Italy. The restaurant business is extremely competitive, a total of 14,000 restaurants, 1.8 times London’s despite having a size of population 10% smaller. People also wait in line to be served in luxury good shops such as Louis Vuitton and Chanel. This is a real testament to the service quality and value for money of Hong Kong.

**Hong Kong is a city full of critics, but critics are the reason why its service standards are so high**
Perhaps the most surprising trend is the emergence of the art and culture industry due to increased patronage in the city. Christie’s and Sotheby’s are reporting unprecedented revenues. ART HK has surpassed Art Basel as one of the most attended art fair in the world in its number of attendees; If trends continue, other creative industries such as music, theatre and ballet will also bump up to world-class status. We eagerly await for rock festivals (Rockit failed due to difficulties in securing necessary permissions from the government) and the return of Music Matters. The only missing ingredient seems to be more government support for talent development and providing talents with space to perform and practice.

Combined with developing the MICE industry, Hong Kong could win back the events business it loses to Singapore and Macau. The international business visitors are already in Hong Kong; with the boost of cultural offerings and additional venues, little can stop Hong Kong from capitalizing on its opportunities.

Entrepreneurship continues to thrive and aided by business-friendly practices. The only major limitation is high rent. However, Singapore has caught up; so although Hong Kong is still the preferred destination for starting SMEs and setting the Asia headquarters of MNCs, other things being equal, the lack of office, retail and residential space etc is pushing businesses to Singapore. Hong Kong has a fantastic start but like the story of the Tortoise and the Hare, Hong Kong has been sleeping for the past decade and now competing cities are catching up. In Sections 2 and 6, we elaborate more on the situation of the race in the finance sector.

ART HK started only four years ago, and already surpassed the attendance for the two largest art fairs in London in 2011 to become the largest in the world

There is obvious demand for more art and the government should facilitate the supply of venues, subsidies and easier procedures

Entrepreneurship is alive and well and ensures competitive quality and prices

Singapore, despite less favourable surroundings, has caught up and even exceeded Hong Kong in some areas
Building Hong Kong into a World City

Hong Kong certainly has the potential and momentum to become a World City if the many mind-set, institutional and infrastructural obstacles that are holding back its development are removed quickly. We set out in Section 4 (“Call for Action”… ) our recommendations, targeted to enlarge and improve both the city’s hardware and software, in the hope that the entire community can reach up, invest its collective energy into devising public and private sector plans, and turn Hong Kong into an even more prosperous, vibrant, and compassionate World City for this and next generation.

Action 1: Build Consensus – “Hong Kong, the World City”

All segments of the community in Hong Kong and the leadership in China should appreciate the processes leading to the formation of a high calibre society which excels in services and a civic value system and in which the world has an emotional and economic stake. Future is very promising, but Hong Kong, as a community, must invest to expand service capacity and capability in the Golden 5 Years and China must allow “One-country, One-market” to evolve smoothly. Symptoms of shortage of hardware (rents and prices of most types of property) and software (full employment in most job sectors) are everywhere – there is a clear call for community to act. Considering the binary outcome facing Hong Kong in the Golden 5 Years, there already exists a common purpose for all segments of the community to “invest and become a World City”

Action 2: Build World-class Hardware

(1) Increase Land Supply – and build better (environment-friendly and efficient) hotels, offices, shopping places, public and private housing, hospitals, universities, local and international schools, public amenities (sports facilities, libraries and study centres etc)… creating the space for new and better jobs and better environment for everyone. Hong Kong is turning customers away because (1) it simply does not have the space for them or (2) rents for the available spaces are prohibitive – good jobs, skills and business networks are denied to the young and best educated generation.

Hong Kong stands at the crossroads of either reaching up and become a World City, or standing idly by, allowing its lesser brethren overtake it

Turn Hong Kong into an even more prosperous, vibrant and compassionate World City

All segments of the community in Hong Kong and the leadership in China should understand what it takes to make a World City

More land, more hardware for new and better jobs and better environment for everyone
If we use rent levels as objective indicators of tightness of supply vs demand in the market, priorities for the government to produce developable land seem mis-placed. While housing rents have barely returned to their peak levels in 1997, rents for shops and offices are already doubled their elevated levels 14 years ago. Yet the bulk of this October’s Policy Address was devoted to public Home Ownership Scheme (HOS).

The community should support the government’s new initiative to create new land and land reserve (available in around five years’ time at the earliest) and also encourage its faster implementation. Furthermore, the government should quicken approvals for projects already in the pipeline so that existing sites can be quickly developed to provide relief to current shortages. The University of Hong Kong School of Economics and Finance Professor Richard Wong’s suggestions on “liquefying” the entire stock of HOS units are clearly workable and will add significantly to economic efficiency as thousands of households can regain mobility and move to the districts they want instead of getting “stuck” in a place they were allocated units many years ago. This will also quickly free up many units for first time buyers.

We outline North Lantau and West Kowloon Reclamation for potential large scale projects to help with short to medium term supply of commercial hardware. Briefly, North Lantau includes sites owned by Hong Kong International Airport (HKIA) at Chek Lap Kok (we term “Gateway to the World” or “GTTW”) and “Greater Tung Chung”. GTTW’s 57ha site is capable of supporting a huge 11m sf commercial development.

While home rentals only reached their 1997 levels, commercial rentals have doubled their 1997 highs

Support the government’s new initiative to create new land and land reserve and encourage its faster implementation

Follow Professor Richard Wong’s suggestions and “liquefy” the stock of HOS flats

Build “Gateway to the World” and “Greater Tung Chung”
(2) Boost Hong Kong’s Appeal as Travel Destination

Hong Kong is one of the second most-visited city in the world and will likely surpass New York City, in another two to three years, as the most popular city-destination, hosting 58m visitors a year. While most visitors love the shoppers’ paradise, hardware is increasingly inadequate and scenes of customers queuing outside shops are getting more common. Hong Kong has no new “destination” mall (sized 1m sf+) on its drawing board. To cater for the rising customer stream, new spaces have to be built. Professor Kwok-pun Cheung of The University of Hong Kong delivered a report to the Legislative Council in March 2011, suggesting the use of underground space (total estimated 15m sf) in West Kowloon Cultural Development (WKCD). In our third report we will explore using 2m sf of this space for retail use. We also suggest a range of measures to improve cultural and artistic contents for tourists.

Action 3: Build World-class Software

(1) Reinvigorate the city’s medical capacity and unleash its potential

It is difficult to understand how no hospitals were established in the 2000s at all when eight were built simultaneously during the 1990s. Since the establishment of the Tseung Kwan O Hospital in 1999, the only new hospital still undergoing construction is the one in Northern Lantau that is now estimated to be in limited operation in 2013, which is 14 years after the start of the project.

Increasing reports of sentinel events is a clear reflection that the shortage of medical staff acts as a huge constraint for quality healthcare provision. There are currently some 12,000 doctors in the city at a ratio of 1.8 doctors per 1,000 population, much less than the average of 3.3 doctors per 1,000 population that OECD countries enjoy. Even with an efficient team of well-trained professionals, the demanding workload of over 60 hours per week on average lowers the service standard that a doctor provides. Our fourth report on how to create a World-class medical system highlights solutions to this burning issue.
(2) Enhance tertiary education attainment

Grooming a World City depends much upon the talent pool of the city. Given the importance of knowledge in today’s economy, one should expect that nowadays most talents have significant exposure to tertiary education. Hong Kong currently only has 18% of its population graduated from universities, much lower than that of many other developed regions in the world. In contrast, Singapore has 23% university graduates out of its population, and the United Kingdom at 24%; leading Hong Kong by 5-6 percentage points.

Compared with London, Hong Kong falls behind by around 14,000 university first-year first-degree places per year. Hong Kong should therefore raise its university enrolment rate. Given that London receives students from the entire UK and the world, Hong Kong should look to its hinterland. The number of government-subsidised university places should be increased to enhance local educational attainment as well as more students from the mainland.

(3) Make Hong Kong a “magnet” to mainland talents

The development of Hong Kong into a World City requires free two-way flows of talents and businesses between the mainland and Hong Kong, so that the most efficient allocation of resources within One-country can result. This will likely result in a significant inflow of talents and capital into the southern city and Hong Kong should accommodate this natural flow because this will create jobs for the young generation.

(4) Attract and retain international talents

A world city cannot be truly international without expatriates adding colour to its cosmopolitan nature. However, recent developments have showcased some glaring deficiencies that critically undermine Hong Kong’s attractiveness to overseas talents. The shortage of quality international schools in Hong Kong is a major inconvenience for expat parents, driving experienced talents out of the city: 75% of the British Chamber of Commerce’s members reflected their businesses in Hong Kong are detrimentally affected by the lack of international school places.
Surveys carried out by the American, British and Canadian chambers show similar conclusions that expats are moving to other cities such as Singapore for they cannot secure a place for their children at an international school. Famous investor Jim Rogers is a real life example who chose to relocate to Singapore over Hong Kong because it offered a better environment for his children.

(5) Freshen Hong Kong’s air

A long-time complaint by locals and expatriates alike. While concrete steps have been taken by the government, there is still significant room for improvement.

(6) Promote the city’s art scene

This is an area where quality and quantity of both audience and professional art talents in are found wanting. This is not to say Hong Kong does not have discerning connoisseurs and great artists, but they are few in number when compared to London and New York City. Hong Kong needs to groom its art and culture scene towards maturity and recognition to gain an equal standing with other World Cities. Offerings in Hong Kong are less diverse than other cultural hubs mainly due to two reasons: audience’s unresponsiveness and limited venue availability. As an illustration of the matter, the Hong Kong Cultural Centre is fully booked two years in advance, but only 12% of performances there are from international groups. The first reason has been gone through above, sufficient to add that internationally renowned music performers and groups have increasingly bypassed Hong Kong to give concerts in Shenzhen or Guangzhou (let alone Tianjin, Shanghai or Beijing), citing declining attendance as one cause. For the second reason, both the quality and quantity of cultural hardware in Hong Kong are in severe shortage, which cannot even satisfy local need.
Locating performing venues in Hong Kong has been based on needs of local districts, thus neglecting the clustering effect that could be created by location proximity of different art facilities. This is why the WKCD can be an enabling factor for Hong Kong’s art and culture development. Baby boomers’ imminent retirement boosts demand in art and culture activities, thus spurring corresponding development. In order to catch the rising tide of retirements, the Legislative Council should approve whatever request for extra funding so that the project can proceed at the fastest pace possible.

If we are going to tread the path as the WKCD Authority drew, the 9%-opened “cultural district” is likely to disappoint on its phase 1 debut 2015. No matter how ingenious the planning of the first phase is, a fragmented conception of WKCD can never blossom into the splendor originally intended. The 700,000sf composite phase simply is too small to draw crowds even if it is used entirely as a shopping centre. Public disappointment at the completion of 9% will snuff any rosy vision of the remaining 91% and WKDC will be stillborn. To improve the chances of success and to ensure sustained support by the public, WKDC should significantly increase the size of phase 1 to at least 25% of the project.

Following the gradual rise of China, worldwide attention has increasingly turned to Oriental art, and the centre of gravity of art and cultural activities has been moving from the West to the East. Nowadays more and more local and international art connoisseurs gather together in Hong Kong, which we expect to increase further in parallel with the increase in corresponding demand. This is not wistful optimism: record-breaking art fair auction (ART HK) this year and the rapid expansion of the number of top galleries in Hong Kong are just tips of the iceberg.

The reality is that art and cultural activities in Hong Kong grow with the size of their attendees. It suffices just to give a few examples: attendance of the Hong Kong Art Festival was well over 90% in past few years; contemporary art festivals and the artwork they exhibit (a significant portion is local), especially visual art like film, painting and photographing, have been enjoying international critical acclaim for decades.

**WKCD – Proceed with all haste and make sure phase 1 is >25% of entire project**

**A successful debut of WKCD phase 1 is a prerequisite to a sustainable arts and cultural hub in the future**

**Art – the quiet boom**
In Section 4, we have identified the actions the community must take in order to take advantage of the inflow of opportunities in the Golden 5 Years and propel Hong Kong to a better future. One of the keys to success involves your participation, thus we would be grateful if you could disseminate our reports which explain the Hong Kong situation and our call for improvement to other Hong Kong stakeholders.

We sincerely hope that you find this report informative and valuable. Feel free to send us your comments and suggestions by emailing friends@hkgolden50.org and please stay in touch through our website www.hkgolden50.org.
2: Finance Sector Trends Are Favourable to Hong Kong IFC

In this section, we start with a top-down comparison of economic statistics of Hong Kong, the two World Cities of London and New York City and the territory’s Asian peer, Singapore, to set the backdrop to our research.

We elaborate on the role of finance as a highly effective enabler of efficient economic activities by virtue of its requiring extremely high standards of performance (precision and urgency) and conclude that it is not a coincidence that both London and New York City, the two acknowledged World Cities, are IFCs. The finance industry acts like the standard bearer for the entire economy. It is like thinking about the Olympic Games: while there are hundreds of medals in the Games, it is the 100m sprint and the 100m free style that catch the imagination of most watchers.

Hong Kong should learn from the evolution of London and New York City and widen and deepen its IFC capacity and capabilities in order to hasten its rise as the next World City. We also set out the six favourable factors that will propel the finance industry in Hong Kong to new heights. We will leave a more detailed discussion on the future development of the finance industry to Section 6 “More users will tap Hong Kong IFC’s Deepcraft”.

Finance sets the service standard and attitude of a city

Many favourable factors should help propel Hong Kong IFC to new heights
In Section 3, we will turn to assessing the quality of the non-
finance service sectors and conclude that open competition
and entrepreneurship remain in rude health with the 300,000
Small and Medium sized Enterprises (SME’s) dominating
most (some 98% of enterprises) of these sectors. As a result
of this free market structure, the service quality and availability
(convenience) in Hong Kong are world class. An example of
this is the number of restaurants that feed a busy city. Despite
a population 10% smaller than London, Hong Kong has 1.8
times the restaurants of the capital city. This suggests a far more
competitive market and has led to lower prices and better overall
quality.

For the past two centuries, London has been the true World
City – a highly successful meeting place of commerce and
depository of wealth from all corners of the world, a trendsetter
of global culture, a place where commercial and social ideas
flow together, become refined by enterprise and discourse and
impact the world. While there have been many great cities rising
and fading in modern history, few, if any, compare with London
when it comes to the degree of internationalization and the extent
its systems of organizing business, law, knowledge, values and
language have influenced the world.

This has remained so despite the rise of the US as the largest
economy in the world in 1870 (Cassis, Youssef. “Capitals of
capital: the rise and fall of international financial centres, 1780-
2005”. Pages 80-86, 110-116), overtaking the UK which at the
time, provided nearly one-third of global production. New York
City, as the commercial and financial capital of the US, ascended
into the ranks of an IFC largely through the sheer scale of its
economic growth. By 1914, the US GDP was already the total
of UK, Germany and France, the next three largest economic
powers of the day.
Top-down Comparison Hong Kong/London/New York City – Similar Population and Land Area

<table>
<thead>
<tr>
<th>2011 (unless specified)</th>
<th>Hong Kong</th>
<th>London</th>
<th>New York City</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP, 2010 (HK$ bn)</td>
<td>1,744</td>
<td>3,385</td>
<td>4,966</td>
<td>1,737</td>
</tr>
<tr>
<td>Nominal GDP Per Capita, 2010 (HK$)</td>
<td>246,000</td>
<td>433,000</td>
<td>607,000</td>
<td>342,000</td>
</tr>
<tr>
<td>Nominal GDP Per Capita Growth, 2000-10</td>
<td>25%</td>
<td>53%</td>
<td>38%</td>
<td>87%</td>
</tr>
<tr>
<td>GDP PPP, 2010 (HK$ bn)</td>
<td>2,525</td>
<td>3,272</td>
<td>4,966</td>
<td>2,277</td>
</tr>
<tr>
<td>GDP PPP Per Capita, 2010 (HK$)</td>
<td>357,000</td>
<td>418,000</td>
<td>607,000</td>
<td>449,000</td>
</tr>
<tr>
<td>Population, 2010</td>
<td>7,077,000</td>
<td>7,825,000</td>
<td>8,175,000</td>
<td>5,077,000</td>
</tr>
<tr>
<td>Population Growth p.a., 2000-10</td>
<td>0.6%</td>
<td>0.8%</td>
<td>0.2%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Total Area (sq, km)</td>
<td>1,104</td>
<td>1,572</td>
<td>789</td>
<td>712</td>
</tr>
<tr>
<td>Labour Force</td>
<td>3,768,000</td>
<td>4,011,000</td>
<td>4,170,000</td>
<td>3,136,000</td>
</tr>
<tr>
<td>Mean Wealth Per Adult (HK$)</td>
<td>1,088,000</td>
<td>2,011,000*</td>
<td>1,937,000 ^</td>
<td>2,221,000</td>
</tr>
<tr>
<td>Median Wealth Per Adult (HK$)</td>
<td>223,000</td>
<td>950,000*</td>
<td>411,000 ^</td>
<td>788,000</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>3.2%</td>
<td>9.6%</td>
<td>11.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Budget Surplus as % of GDP</td>
<td>4.3%</td>
<td>-10.4%*</td>
<td>-8.8% ^</td>
<td>-1.1%</td>
</tr>
</tbody>
</table>

*Figures for the United Kingdom, ^Figures for the United States
Source: HK CSD, UK ONS, NYC EDC, Dept of Statistics Singapore,
Credit Suisse Global Wealth Databook 2011, HKGlobcom60

Neither of the two World Cities attained their global prominence by a history other than being the financial capital of their hinterland. Centres of agriculture, industry, commerce etc somehow all failed to develop sufficient gravity to attract talents, capital, entrepreneurs and artists from all over to elevate them above their functional excellence and transform them into World Cities. To ascend to the echelon of a World City, it seems, a city requires at least the sophistication, skills, attitudes, soft and hardware and international networks of an IFC.

First an IFC, then, a World City?
Having come under British rule for 155 years, one of the longest periods of colonial histories in the world, Hong Kong has inherited a comprehensive system of Common Law and some of the best market practices of the developed West. It therefore shares the same international system of business conduct with the developed world and should head the race as the preeminent hub of financial and high credibility business (eg healthcare, product certification, valuable goods) in Asia, where service standards are often lower. For example, while the service sector accounts for some 93% of Hong Kong’s GDP, the highest in the world, it is only 43% in China and around 60% in Shanghai and 72% in Singapore.

It is to be expected, therefore, that the service intensity of Hong Kong and the unfettered competition inherent in the system, will continue to sharpen the quality and reliability of this industry and keep costs low. Together with the city’s cultural affinity and geographical proximity to its Asian customer base, these two aspects should attract more and more customers from its hinterland and enable Hong Kong to share in the growth momentum of a fast developing Asia.

**Six Favourable Factors to Propel Hong Kong IFC to New Heights**

As an IFC, Hong Kong is set to scale new heights. This is so due to a number of favourable factors including: (1) the shifting of the global economic growth focus from the West to the East (2) the growing recognition, globally, of the sophistication and “deepcraft” of the city’s finance industry (3) the immediate hinterland of a young and fast-growing Guangdong province that will increasingly utilize the service platform of Hong Kong for multiple services (4) growing talent pool of finance practitioners (5) One-Country, One-Market – development of the offshore Rmb market, the increasing freedom given to mainland individuals and business to come to Hong Kong (6) a non-finance sector that delivers quality services at good value for money.
(1) The Shifting of the global economic Growth Focus from the West to the East

In their study to identify the new “Global Growth Generators”, Economists Willem Buitier and Ebrahim Rahbari (2011) et al. forecast that 11 economies will power global growth for the next 40 years – nine of these in Asia and two in Africa. An IMF study covering the bulk of the Golden 5 Years shows that China and Emerging Asia (excluding India) accounted for/will account for 36% and 42% of global economic growth in 2010 and 2015, respectively, some 7 times and 9 times that of the Eurozone which forms the immediate hinterland of London over the same period. Clearly, the lower income base and strong cash positions of developing Asia are conducive to growth while the significantly higher private and public sector debt loads of Europe detract from growth and the growth differential between the two regions are likely to persist beyond 2015 for some time.

Developing Asia (ex-India) will grow at nine times the speed of Euro zone in 2000-2015

Share of Global Growth 2000 - 2015

- China: 35%
- Emerging Asia
- Euro zone
- Others
- US
- Japan

Source: IMF projections, HOMA
(2) The Growing Recognition, globally, of the Sophistication and “Deepcraft” of the city’s finance industry

In assessing whether Hong Kong has the essential skills (technology) to be the preeminent IFC in Asia, we refer to a book by W. Brian Arthur, a professor at the Santa Fe Institute and Professor of Economics at Stanford University. In “The nature of technology: what it is and how it evolves” 2009, he says “One thing very noticeable about the buildout of new bodies of technology is that their leading edge is highly concentrated in one country or region…” (Pages 156-165) “Real advanced technology …issues not from knowledge but from something I will call deepcraft… it is a set of knowings. Knowing what is likely to work and what not to work. Knowing what methods to use, what principles are likely to succeed, what parameter values to use in a given technique. Knowing whom to talk to down the corridor to get things working, how to fix things that go wrong, what to ignore, what theories to look to. This sort of craft-knowing takes science for granted and mere knowledge for granted. And it derives collectively from a shared culture of beliefs, an unspoken culture of common experience…A knowing that again becomes part of a shared culture…To any problem or difficulty … there would surely be an answer somewhere in the [location]…
We will put our examples, in brackets, within the paraphrasing of the book, to illustrate Hong Kong’s deep craft in financial markets: [Shared knowings] **take time to build up, and do not transfer easily to other places.** And they cannot be fully written down...the real expertise resides largely where it was created, taken for granted, shared, and unspoken... It follows that once a region...gets ahead in an advanced body of technology, it tends to get further ahead. Success brings success, so that there are positive feedbacks or increasing returns to regional concentrations of technology. Other locations can contribute, to be sure. (eg. For the past 18 years, Hong Kong has competed with other stock markets in China, Singapore, Japan and US in providing financial services to mainland Chinese and other global companies, including raising funds for these firms through Initial Public Offerings (IPOs). In the past five years, Hong Kong’s excellence in this area has become increasingly recognized, and this will lead to bigger concentration of servicing by IFC Hong Kong. )

They can manufacture and improve the technology, but they will not be initiating it on a large scale because the detailed knowings needed to push the edge are not resident there (eg Investor base in Hong Kong’s peer markets is not deep enough to provide liquidity to listed stocks, thus depressing valuation of the stocks listed in these markets compared with those listed in Hong Kong. As a result, Hong Kong is entrenching a belief that its market offers the highest valuation and liquidity in Asia for China/Asia businesses. Despite rocky market conditions for most parts of this year, Hong Kong still managed to raise US$25bn (HK$195bn) through IPO’s in first three quarters, the highest in the world. Out of these, 70% came from overseas with the balance from mainland China.)
All this of course has consequences for national competitiveness. Technology proceeds out of deep understandings of phenomena, and these become embedded as a deep set of shared knowings that resides in people and establishes itself locally—and that grows over time...The process is not one that can be easily controlled from the top down... From what I have said in this chapter, it should be clear that domains develop in a different way than individual technologies do. The process is not so much like the development of the jet engine: focused, concentrated, and rational. It is more like the way a system of legal codes forms: slow, organic, and cumulative. With domains, what comes into being is not a new device or method, but a new vocabulary for expression—a new language for “programming” new functionalities in.

And this happens by slow emergence (eg. It has been 18 years since the IPO of the first mainland Chinese corporation in Hong Kong. Over this period, new laws, market practices acceptable to global investors have evolved and a new “vocabulary” was developed by a growing band of analysts and professional investors to appraise the opportunities that have emerged from such new offerings.) A domain crystallizes around a set of phenomena loosely understood or around a novel enabling technology, and builds organically upon the components (eg the grouping of mainland stocks have grown to such a significant extent that special market indices were made to represent these. A few weeks ago, the Hong Kong Stock Exchange entered in to alliance with the exchanges in Brazil, Russia, India, and South Africa for the development of futures and index related products. Shanghai and Shenzhen Exchanges are likely to join in future.) products, practices, and understandings that support these. And as the new domain arrives, the economy encounters it and alters itself as a result... (Hong Kong IFC is also a tourist and convention city – functions that encourage exchange of information, ideas and experiences with all the good support services eg culinary sector, to match, absorbing all the labour released from its old manufacturing base.)
In fact, we can see that innovation has two main themes. One is this constant finding or putting together of new solutions out of existing toolboxes of pieces and practices (eg the decision by the Hong Kong Stock Exchange (HKEx) to invite non-Chinese overseas companies to list in the IFC – eg Prada, Samsonite and Russal etc. This was a “leap” in geographic catchment for Hong Kong which hitherto serviced companies in Asia time zone. The “knowing” that this new and bold initiative “will work” demonstrates deep understanding of global processes; eg the giant IPO of China Mobile on 23rd October 1997 raising HK$32bn – it involved the same listing procedures but the “knowing”, without there having been a precedent, that the market could absorb a “new industry” with such a “huge size”, and which was successfully executed, demonstrated deep insight of “what works”. The other is industries constantly combining their practices and processes with functionalities drawn from newly arriving toolboxes (eg The first listing of H-shares (Tsingtao Brewery) in Hong Kong in 15th July 1993; ETF’s of H-shares and other groupings of such shares) - new domains.

This second theme, like the first, is about the creation of new processes and arrangements, new means to purposes (eg Rmb deposits in Hong Kong, Rmb-bonds and Rmb-listings in Hong Kong in 2012). But it is more important. This is because a new domain of significance (think of the digital one) is encountered by all industries in an economy. As this happens, the domain combines some of its offerings with arrangements native to many industries. The result is new processes and arrangements, new ways of doing things, not just in one area of application but all across the economy (eg the move towards One-Country, One-Market and more mainland investors to come to Hong Kong and buy products based on mainland corporate or debt instruments).
(3) The Immediate Hinterland of a Young and fast-growing Guangdong Province that will increasingly utilize the multiple service platform of Hong Kong

Hong Kong and London both have populous immediate hinterland with sizeable economic influence. For Hong Kong it is Guangdong Province, which is the province with the largest GDP in China, and for London it is the entire country of UK.

The Hinterlands – Guangdong Province vs. the UK

<table>
<thead>
<tr>
<th></th>
<th>Guangdong</th>
<th>United Kingdom</th>
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</thead>
<tbody>
<tr>
<td>Population</td>
<td>104,303,000</td>
<td>62,262,000</td>
</tr>
<tr>
<td>Total Area (sq. km)</td>
<td>178,000</td>
<td>242,000</td>
</tr>
<tr>
<td>Population Density (population/sq. km)</td>
<td>586</td>
<td>257</td>
</tr>
<tr>
<td>Dependency Ratio</td>
<td>31%</td>
<td>52%</td>
</tr>
<tr>
<td>Nominal GDP (HK$ bn)</td>
<td>5,219</td>
<td>17,480</td>
</tr>
<tr>
<td>Nominal GDP Per Capita (HK$)</td>
<td>50,000</td>
<td>281,000</td>
</tr>
<tr>
<td>Nominal GDP Growth p.a., 1990-2010 (Local Currency)</td>
<td>18.4%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Service Intensity</td>
<td>45%</td>
<td>78%</td>
</tr>
</tbody>
</table>

Source: Statistics Bureau of Guangdong Province, UK ONS, CIA World Factbook

While Guangdong has 104m people, the most of any province in China and over 65% more than the UK’s 62m, its current nominal GDP is still less than one-third of that of UK. Although Guangdong lags the UK in income, it is growing fast (from 1990 to 2010, its nominal GDP has grown 28 times) and its young population (20% lower dependency ratio than the UK) should remain a significant economic growth engine for Southern China for many decades to come.

Guangdong’s low service intensity of 44% implies a lower level of sophistication and quality compared with Hong Kong’s 93% and the UK’s 78%. The opening of the Guangzhou/Shenzhen/Hong Kong Express Rail Link in 2015 should put the provincial capital within 48-minute reach of Hong Kong, further facilitating two-way flows and use of Hong Kong services.
While some may argue that other cities in the Pearl River Delta may rival Hong Kong as a service centre for the region due to their lower costs and proximity to production, the GDP composition figures of other major cities suggest there is still some way to go before they can become all-rounded service centres.
From 1990 to 2010, the nominal GDP of Guangdong has grown 28 times, albeit off a low base, while that of Hong Kong has only increased by 180%. Increasing porosity of the economic border between Hong Kong and Guangdong, including the recent adoption of the e-Channel system that speeds up the immigration process should ensure higher demand for Hong Kong services.

(4) A Fast-swelling Talent Pool of Finance Talents

A proxy to the existing talent pool of financial professionals is membership of the CFA Institute. While the existing pool of Chartered Financial Analysts (CFA) is heavily skewed towards the West, with Europe and North America accounting for 16% and 65% respectively, while Asia Pacific accounting for only 15%, it is the changes at the margin that suggest the size of talent pool to come.
In terms of candidates sitting for the CFA examinations, Asia Pacific takes the lion’s share, contributing 43% of students. This is some three times the proportion in the existing pool of qualified practitioners.

(5) One-Country, One-Market – development of the Offshore Rmb market, the increasing Freedom given to Mainland Individuals and Business to Come to Hong Kong

The key to Hong Kong becoming a World City hinges to a large extent, the freedom given to mainland people and businesses to choose to use Hong Kong’s comprehensive service platform, especially in the finance sector where the city has a clear edge. We have discussed this subject in earlier section and in our first research report.
(6) A Non-Finance sector that delivers Quality Services and Good Value

The success of an IFC does not stem from financial expertise alone but requires myriad support sectors. Cost of living is a major consideration in talents’ decision to come or go. A high salary can easily be offset by expensive utilities, food, housing and entertainment costs. While London’s average wage level nearly doubles that of Hong Kong, adjusting for the significantly higher cost of living there, London’s purchasing power is only 26% higher than Hong Kong.

Among the components making up cost of living, the gap between Hong Kong and London is widest in the infrastructure areas. For example, London Underground’s average ticket price is nearly four times that of Hong Kong’s MTR and the average spending on basic household utilities is also 73% higher. Even London taxi fares are 165% more expensive for a typical 5km journey. Hong Kong offers better value for money in all major components of cost of living except rents.

![Cost of Living - London as % of Hong Kong](image-url)
3: Hong Kong should be Thankful for its World-class Non-finance services but there is Room to Improve

Hong Kong is a city of critics until they leave home, when they quickly realise in comparison, how much better service standards are back in the city. It is precisely because Hong Kong people are so critical that the service standard is so high compared to other cities. In this section, we elaborate on the world-class IFC BEST attributes of Hong Kong that gives the city a uniquely competitive edge.

The most remarkable thing about Hong Kong is how efficient and convenient the city is – taxis are cheap, shops open late, 24-hour convenience store every 5 minutes away. The Octopus Card, which use far exceeds the Oyster card in London, allows inhabitants to live a cash-free life to pay for transport, food, groceries, medicine and even movie tickets.

The statistics of public transport systems demonstrate that Hong Kong people on average spend 58 minutes every day for commuting, which is considerably less than London, New York City or Singapore. Also, the time it takes to go from the Chek Lap Kok airport to the city is faster and cheaper. The Airport Express stops at three stations in the city, including Central, whereas the Heathrow Express only goes to Paddington Station, which is still a very expensive taxi trip away from the City of London.
Hong Kong’s MTR is in obvious lead in punctuality against other metro public transport systems. The occurrence of train delays of the Hong Kong MTR is only 0.3%, which is one-fifth of that of the Singapore MRT and one-tenth of the London Underground. The MTR has also consistently been rated as one of the best public transport systems in the world. This kind of excellent service infrastructure gives rise to predictability, a sense that one would not suffer unexpected delays or hassles due to something malfunctioning, and it is crucial to industries with a high level of demand for punctuality (as being late for a pitching session may cost a company a multi-million dollar deal). It certainly lays a solid foundation for becoming a World City.

Hong Kong MTR is always on time with only 0.3% of trains being late
Transportation Figures Comparison – Hong Kong vs. London

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<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>London</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Airport Passengers</td>
<td>50,945,000</td>
<td>127,335,000*</td>
</tr>
<tr>
<td>Amount of Airport Cargo Traffic (tonnes)</td>
<td>4,130,000</td>
<td>1,808,000*</td>
</tr>
<tr>
<td>Number of Flight Destinations, 2011</td>
<td>160</td>
<td>176[^]</td>
</tr>
<tr>
<td>Number of MTR/Underground Stations, 2011</td>
<td>86</td>
<td>270</td>
</tr>
<tr>
<td>Number of Private Cars</td>
<td>415,000</td>
<td>2,916,000 (2008)</td>
</tr>
<tr>
<td>Lengths of Public Roads (km)</td>
<td>2,100</td>
<td>14,800</td>
</tr>
</tbody>
</table>

[^] Heathrow Airport
[^] *All airports within vicinity of London included.
Source: HKIA, HK CSD, UK Civil Aviation Authority, MTR, Transport for London

Hong Kong has a high degree of connectivity whether it is the physical connectivity in the form of transportation or informational connectivity in the form of technological infrastructure. Personnel and information flow freely into and out of Hong Kong, making it an ideal place for a regional hub as it is extremely well-connected to the surrounding regions which a regional headquarters needs to manage.

The Hong Kong International Airport, a well-established regional air transportation hub, is regularly selected as the best airport in the world, receiving nearly 40 world’s best airport awards over the years. Hong Kong’s home carrier, Cathay Pacific Airways, is also one of the world’s leading airlines with strong performance records in service quality and profitability. A journey on the Airport Express to Central takes only 24 minutes while it takes 27 minutes to travel from Singapore Changi Airport to city centre despite covering only around half the distance.

The natural proximities of Hong Kong to the other Asian economic centers are shorter than those from Singapore, as evident in the sum of GDP from cities within four hours of flight distance. Hong Kong’s sum of GDP within four hours distance is comparable to London’s, which is over seven times that of Singapore’s. The long-due transport infrastructure projects like the Guangzhou-Shenzhen-Hong Kong High Speed Rail and the Hong Kong-Zhuhai-Macau Bridge can foster an even closer physical link between Hong Kong and China, and would move one step closer to “One Country, One Market”.

Hong Kong’s Top-notch Connectivity among Regional Centres
In terms of technological infrastructures, Hong Kong has one of the most developed among all major metropolises, being one of the first ten countries or regions that have rolled out 4G mobile networks. Hong Kong has among the world’s lowest phone and Internet fees, and its broadband network penetration rate is also way ahead of many other Western cities, allowing for a hassle-free and cheap access to the world.

Hong Kong is the cheapest among Nylonykong cities and Shanghai in every type of phone tariffs except mobile broadband for residents.
Hong Kong is one of the safest cities in the world when it comes to crimes. Take the incidents of violent crime per capita, for instance, London is 15 times that of Hong Kong in 2010. The multiples are even bigger when it comes to robberies, rapes and burglary.

Hong Kong’s telecoms expenditure is the cheapest among Nylonkong cities, Singapore and Shanghai for most types of businesses.
Being such a safe haven, culinary capital and shopping paradise, Hong Kong is extremely popular with tourists, especially those from mainland China ever since the introduction of Individual Travel Scheme in late 2003. We forecast Hong Kong’s overnight visitor number to overtake that of London by 2012.

**Tourism Figures Comparison - Hong Kong vs. London**

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>London</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Hotel Rooms</td>
<td>60,400</td>
<td>109,700</td>
</tr>
<tr>
<td>Number of Overnight Visitors</td>
<td>20,085,000</td>
<td>26,286,000</td>
</tr>
<tr>
<td>Number of Total Visitors</td>
<td>36,030,000</td>
<td>N/A*</td>
</tr>
<tr>
<td>Number of International Visitors</td>
<td>13,348,000</td>
<td>14,600,000</td>
</tr>
<tr>
<td>Number of Business Visitors</td>
<td>3,410,000</td>
<td>2,775,000</td>
</tr>
<tr>
<td>Total Visitor Spending (HK$ bn)</td>
<td>169</td>
<td>106 ^</td>
</tr>
<tr>
<td>Number of Restaurants</td>
<td>14,100</td>
<td>8,000 ^</td>
</tr>
<tr>
<td>Number of Museums, 2011 ^</td>
<td>54</td>
<td>250</td>
</tr>
</tbody>
</table>

*No Data, ^ Only includes international visitor spending, \#2011 Dec figure
Source: HK Tourism Board, UK ONS, London M&A

Visitors have been spending more per capita during their trips to Hong Kong too. Compared to last year, the average spending per visitor has increased by 40% while spending per overnight visitors increased by 47%, reflecting the rapidly growing spending power of mainland Chinese visitors. The growth of visitor spending has nearly quadrupled over the past ten years and has brought immense business opportunities for the retail sector, so much so that the overall service capacity of Hong Kong is stretched to the limit driving up street shop and shopping mall rents by over 20% since the start of 2010.
Shops with business catering for mainland tourists are displacing local stores as only high profit businesses can afford the exorbitant rents, which has led to the service industry suffering from reduced varieties and difficult operating environments.

The hotel price level, compared to one year ago, increased by 40% in the first half of 2011, the highest among all cities surveyed in the Hotel Price Index report published by Hotels.com. The shortage of hotel rooms hinders the growth of the tourist industry as high room rates turn away potential visitors. This situation is only going to worsen unless land supply for shops, malls and hotels is increased quickly.
With an overall positive outlook of the tourist industry, Hong Kong should develop the business travel industry, which has been relatively static since 2002. There has not been any new major exhibition and events venue being completed since the opening of AsiaWorld-Expo. There are only a handful of extra large venues: HKCEC, HITEC, Asia Expo, Queen Elizabeth Stadium, and Hong Kong Coliseum, which are dominated by pop shows. The lack of Meetings/Incentives/Conventions/Exhibitions (MICE) facilities in Hong Kong are pushing firms to look elsewhere to hold meetings and conferences; the most popular alternative being Macau. MICE industry is crucial to a city’s success as a business hub as conventions and exhibitions bring in flows and ideas, and enable the city to act as a magnet for further business.

Since the opening of Venetian Macau and the City of Dreams on the Cotai strip, Hong Kong lost many business conferences and events to Macau due to cost. For example, Templeton is holding their annual conference in Macau this year although most of the attendees are from Hong Kong. The Macau Government is actively facilitating the industry by holding “Meet in Macau” functions for the promotion of their MICE facilities across South East Asia. Macau is continuing to expand its number of extra-large venues and variety of world-class entertainment, including Cirque du Soleil for Zaia as well as the House of Dancing Waters. Due to costs and entertainment offerings, events that should be held in Hong Kong are now held in Macau.

Singapore is also very proactive in expanding the capabilities of its MICE industry and positioning itself as an Asian hub for business conventions and exhibitions. Three new exhibition centres, two of which are part of integrated resorts with large shopping and entertainment facilities, have been constructed within just five years. This has contributed to the rapid growth of business visitor arrivals in Singapore, which has increased 131% from 2001 and overtook Hong Kong in 2010.
Hong Kong has the kind of excitement, diversity and emotional anchoring that can only be created by a true World City. Visitors are spoilt for culinary choices as Hong Kong has nearly 14,000 restaurants (as opposed to less than 8,000 in London), of which 62 are Michelin-starred. Hong Kong also boasts the world’s cheapest Michelin star restaurant as well as the only Michelin three-starred Italian restaurant outside Italy. Michelin has commented that the quality of Hong Kong restaurants is comparable to New York City.

A true culinary capital, Hong Kong rivals New York City in variety and quality of restaurants.

Hong Kong has the only Italian restaurant outside of Italy with three Michelin stars.
There is perhaps no better way to appraise Hong Kong’s art scene than through the eyes of a journalist from a World City. Hence we refer to a report by a London journalist on the subject:

_Hong Kong is firmly at the heart of China’s new cultural revolution_,
article from The Guardian, The Observer, on 31 July 2011

When traffic lights turn red in central Hong Kong, they emit a noise like the frenetic beating of a clockwork toy on a tin drum. Hordes of shoppers, workers, skinny expat wives pushing babies in prams and chic executives scurry across the thoroughfares, threading across some of the most expensive real estate in the world.

In the sought-after Pedder Building, with its unusually high ceilings, Abercrombie & Fitch has taken a prime retail spot previously occupied by Shanghai Tang, a Chinese luxury brand, and is paying, according to Sir David Tang, a Hong Kong businessman and socialite, “about £5m a year in rent”. State-of-the-art shopping malls heave with customers all day long. Brands such as Louis Vuitton employ staff to stagger the queues that stretch around the block.

Hong Kong’s affluence began after the British handover in 1997 when borders were relaxed, visas became more easily available and Chinese mainlanders were able to come to spend. The richer China has become, the more they visit Hong Kong to shop.

“Luxury brands are forecasting year-on-year growth of 35%,” says Helen Willerton, former managing director of Chloé Asia Pacific. “Mainlanders fly in for a few days, save money on accommodation by staying in three-star hotels, and spend on high-end retail – watches, jewellery and fashion.”

But 14 years after the handover, Hong Kong is no longer just about shopping. Forget designer labels; this city state is experiencing a cultural boom that is proceeding at breakneck speed. The Chinese art market is now the second largest in the world after the US, with a global share of 23%. Hong Kong’s unique position, poised between China and the west, is turning it into a cultural landmark.
Gagosian Gallery, which owns spaces in New York City, Los Angeles, London, Paris and Rome, opened in the Pedder Building in January. Earlier this month, White Cube announced the launch of its first non-UK space at 50 Connaught Road, close to the Mandarin Oriental hotel favoured by well-heeled westerners and the seriously rich Chinese, and to Tang’s private members’ bar and restaurant, the China Club, which contains his unrivalled collection of Chinese contemporary art. Others are bound to follow.

Hong Kong’s four-year-old art fair, Art HK, has just sold a 60% stake to MCH Group, parent company of the world’s pre-eminent contemporary art fair, Art Basel.

“Basel will change the quality of the art fair,” says Xin Li, Asia business development director at Christie’s. “Also, it’s at the same time as the Christie’s contemporary sale. The Chinese market is young but I’m always surprised – and I am Chinese – at how quickly the Chinese learn. They’ll know nothing about [Damien] Hirst and then six months later they’ll know everything.”

Whether ordinary Hong Kong citizens benefit directly from the economic boom is a moot point. Extortionate property prices mean tiny apartments and a phenomenal work ethic, and the galleries and art fair are seen to belong to an elite middle class rather than the masses. But “wealth is followed by culture”, says Tang, and western culture is what Hong Kong has been missing and now, it seems, can’t get enough of.

Last February, Lars Nittve, former director of Stockholm’s Moderna Museet and one-time head of Tate Modern, was appointed chief director of the M+ museum of contemporary art, which will form part of the West Kowloon Cultural District (WKCD) development. People at all levels of Hong Kong society, it seems, are hungry for culture and galleries. This month’s Hong Kong book fair attracted one million visitors (only 1% of whom were from the mainland), each spending approximately £35 a head on books, with crowds of people attending more than 300 readings and seminars.
“They took £35m in six days,” says Tang, who moderated two public forums called “How and What” and “Why do Writers Write?”. Tang’s speakers were David Starkey, Nicholas Coleridge, Tom Parker Bowles and AA Gill, and his events were packed out. “Where else do you find that thirst for knowledge, fervour for learning?” he pointed out. “That’s why I do my forums, to give them access to thought.” Starkey agreed, telling the 700 people politely firing questions at him: “When I came into this fair, I couldn’t believe the amount of people. It is inconceivable that this could happen in Britain.”

West Kowloon Cultural District is a semi-independent organisation with HK$21.6bn (£1.7bn) in the bank and a chunk of land on which to build, with a master plan to be presented by Norman Foster Associates in September. New venues for existing performance arts groups will be created, but M+ will be a museum built from scratch that will include a permanent collection.

“The first phase of building is 43,000 square metres, which should open by 2015,” says Nittve. “The second phase takes us up to 61,000 square metres, but we will have nomadic exhibitions running from early next year.” As well as being a venue where local people “can see the best and most important art of the moment”, Nittve is adamant that M+ is embedded in Hong Kong. “Museums take their character from their environment; look at the Guggenheim in Las Vegas, closed after two years.”
The key, he says, is to develop the local art scene rather than concentrating solely on West Kowloon. Non-profit art collective Para/Site has managed to pull off top-quality shows in the kind of space we in the west would describe as a cupboard. But self-confidence has been lacking in the Hong Kong artistic community: they have felt overshadowed by the super-successful Chinese scene, their studio space is limited and expensive (many have their work made on the mainland), and they don’t have anything like the high status of artists in China. Hong Kong artists often have parallel careers as designers and architects and this is not trusted in the west. But the concept of art is shifting, says Nittve – “video art/cinema is definitely crossover art, on the outskirts of fine art practice, and has been the most creative area in recent years”. Stanley Wong, a successful designer and ad man, is also a practising artist, having shown at the Venice Biennale. “What these artists have lacked is an arena in Hong Kong, a platform that gives them kudos. Most western cities have these places,” Nittve says.

Influential players from the art world, including businessman and design enthusiast Victor Lo, gallerist and academic Johnson Chang, and Claire Hsu, founder of Asia Art Archive, which documents Chinese contemporary art practice, were asked to join the M+ advisory board. “They put together a paper that sets the agenda for M+,” says Nittve. “It’s seldom you see a new museum project anywhere in the world that is so well-considered and thought-out.” With the recent appointment of Michael Lynch, chief executive of the South Bank Centre from 2002 to 2009, as chief executive, the West Kowloon Cultural District authority seems likely to achieve its aim of giving Hong Kong the cultural legs it lacks.

Lynch says he can see the 40-hectare site from his bath. “I’ve always thought it was a visionary project, but the scale! It’s like building the South Bank from scratch instead of letting it grow over 70 years. I can see how important the cultural centre will be, it’ll change the way this place works. On the contemporary art side, we’re looking straight up the Pearl river delta and that is where the whole world will be looking too.”

From Nittve’s window, one can see the construction of the new high-speed railway connecting Hong Kong to the mainland. It will stop 200 metres from M+ and drop off 60 million passengers a year. “At certain points in time, there’s a need for a museum that can reflect the present,” says Nittve. “WKCD will be a manifestation of a shift in the world cultural order.”
Hong Kong has picked up a not-so-welcome nickname of “cultural desert” over the years as it is perceived to be lacking in cultural and artistic activities. However, recent trends show rapid developments and signal hope that it is catching up to New York City and London in terms of patronage. The art auction figures are particularly encouraging, with total auction sales in 2010 exceeding London for the first time. The increased patronage in Hong Kong is set to attract more artists and artistic development in the city.

Hong Kong is the third largest art-auction market in the world, following New York City and London. Earlier this year, the British Art Market Federation announced that the Chinese art market, which nearly doubled in value since 2009, had outpaced the UK to become the second-largest in the world, with a global share of 23%. With its unique position between China and the West, Hong Kong is playing an increasingly important role in driving the growth of the international art market.
The two largest international auction houses, Christie’s and Sotheby’s, have both achieved phenomenal growth in their auction sales in Hong Kong over the past 3 years. In 2010, the two houses’ auction sales totalled HK$10.9bn, a 230% increase from 2009. The Chinese contemporary arts accounted for more than 60% of the auction lots with a substantial rise in average auction price too, reflecting strong international interest on this relative newcomer in the global art scene and proving Hong Kong’s importance as a gateway between Chinese arts and international art enthusiasts.

Undergoing the biggest auction sale in Hong Kong’s history this year, Christie’s spring season brought in HK$4bn in total, which is a 60% increase over the same period a year ago, much stronger than the 32% increase in London and the 6% decline in the US. Christie’s record result affirms Hong Kong as a significant global art hub and Asia as the fastest growing art market in the world. As for Sotheby’s, its revenue share in Hong Kong has risen substantially from 8% in 2007 to 17% in 2010. Average growth rate of revenue in Hong Kong throughout the four years is more than three times that of the UK and six times that of the US.
Behind the strong demand in the auctions, Asian buyers led the sales activity and continue to demonstrate a growing passion and appetite for artworks. “The Chinese market is young, but I’m always surprised at how quickly the Chinese learn,” said Christie’s Asia Business Development Director in a Guardian news report. In 2010, more than 2,200 individuals from 55 countries participated in Sotheby’s Hong Kong auctions. Among new collectors competing at the highest levels of global sales, those from greater China dramatically outnumbered those from North America or the UK by 50%. Christie’s Hong Kong sales in November 2010 experienced strong demand for works of contemporary and modern Chinese artists, with Asian buyers placing the winning bids for nine out of the top ten works. ArtTatic’s recent survey shows that the mainland Chinese collectors are featured in the top five, ahead of US collectors and Indonesian collectors.
Asian collectors are attracted to Hong Kong because the import and export of artworks is duty-free and there is no sales tax. By comparison, Singapore has a consumption tax of 7%, while China levies a 34% import tax on artworks. Survey findings from ArtTactic also reveal that experts view the mainland contemporary art market as being 49% more risky than the Hong Kong market. This reflects the reliability and credibility of Hong Kong, and confirms Hong Kong’s irreplaceable role in China’s booming contemporary arts market. With low tax, proximity to mainland collectors, established legal system among other factors, Hong Kong is firmly set to attract more Asian and international buyers and capitalize on the booming arts scene in Asia.

Low tax beneficial to developing Hong Kong’s art market
London used to be the second-largest art market globally, and it is still the second-largest auction market in the world. However, facing the increasing competition from Hong Kong, London’s ability to deal with the threats could be further damaged by UK’s burdensome tax regime. An EU levy on the sale of works by living artists was introduced in the UK in 2006, and, according to the British Art Market Federation, was a “significant factor” behind the country’s declining share of the contemporary art market. Under European Commission plans, in 2012 the levy is due to extend to sales of works by artists who have died within the last 70 years. This may further diminish London’s leading position in the arts market.

There is an increasing number of highly respected, international galleries opening in Hong Kong. Gagosian Gallery, one of the largest international art dealerships with eleven galleries around the world, opened at the Pedder Building in January. Earlier July, White Cube, one of Europe’s most successful art dealerships, announced the launch of its first non-UK space at 50 Connaught Road. Other significant international gallery openings include Ben Brown Fine Arts in 2010 and de Sarthe Gallery in 2011. More are bound to follow. The influx of western galleries is expected to add to the diversity of the arts market and meet the increasing appetite for a wider selection of arts in this international city.
ART HK, the international art fair held at the Wanchai Convention and Exhibition Centre for the fourth time this year, is the largest of its kind in Asia and is generally accepted as the “Art Basel of Asia”. This year, ART HK has surpassed the attendance figures for the two largest art fairs in London, London Art Fair and Frieze Art Fair, with 260 leading galleries (up from 155 in 2010) from 38 countries participating and a whopping 63,000 visitors, which is up 38% from 2010 and more visitors than Art Basel. The prominence of ART HK has led to MCH Group, the organizer of Art Basel and Art Basel Miami Beach, to take a majority ownership stake in ART HK from July 2011 onwards. We can only expect ART HK to develop further with such a strong international partnership. Hong Kong could also replicate the uniquely successful Affordable Art Fair in London which showcases works of emerging artists in an “unstuffy environment” in order to encourage the wider community to enjoy and buy contemporary art.

### ART HK Among the Most Attended Art Fairs in the World

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</thead>
<tbody>
<tr>
<td><strong>Attendance</strong></td>
<td>63,000</td>
<td>50,000</td>
<td>24,400</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Number of Exhibiting Galleries</strong></td>
<td>260</td>
<td>260</td>
<td>124</td>
<td>173</td>
</tr>
<tr>
<td><strong>Number of Participating Countries</strong></td>
<td>38</td>
<td>35</td>
<td>Mainly British</td>
<td>33</td>
</tr>
</tbody>
</table>

*Source: ART HK, Art Basel, London Art Fair, Frieze Art Fair*
Hong Kong has one of the largest and most dynamic film entertainment industries in the world, and is crowned the “Hollywood of the East” by New Yorker staff writer Frederic Dannen. Based on statistics compiled by Screen Digest, Hong Kong ranked first in Asia and third in the world’s per capita film production in 2008, and is one of the world’s largest film exporters with about US$37m worth of film exports in 2010. This tiny city has bred hundreds of successful filmmakers, directors, producers and actors who have won over 300 international awards, including those at the Cannes, Berlin and Venice Film Festivals. The number of films co-produced with mainland China has also surged from 10 per year in 2004 to 30 per year in 2010. Last year, seven out of the top ten domestic box office films in the Mainland were co-productions.

**Hong Kong International Film Festival Much Bigger in Scale than the BFI London Film Festival**

<table>
<thead>
<tr>
<th>HKIFF 2011</th>
<th>BFI London Film Festival 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Titles Screened</strong></td>
<td>330</td>
</tr>
<tr>
<td><strong>Attendance</strong></td>
<td>600,000</td>
</tr>
</tbody>
</table>

Source: HKIFF, UK Dept. of Culture, Media & Sport

Screening over 330 titles from more than 50 countries in 12 major cultural venues across the territory, the Hong Kong International Film Festival (HKIFF) is Hong Kong’s largest cultural event that reaches an audience of over 600,000 including 5,000 business executives who attend Hong Kong Film and Television Market (FILMART), a concurrent event of the HKIFF. Along with International Film festivals in Busan, Tokyo and Shanghai, the HKIFF is one of the “big four” cinematic events in Asia.

*Hong Kong’s biggest film festival draws an audience of over 600,000; five times the attendance at BFI London Film Festival*
Back in the 1980s, Hong Kong’s movie industry was the third largest globally, just behind India and the US. Hong Kong produced a record 200 films in 1993 and the industry totalled US$155m gross earnings. Since the 2000s, however, film production decreased to only around 50 per year due to lack of funding and support. Hong Kong has the resources and talents but requires a proper infrastructure, such as an institute like the British Film Institute (BFI) where local film statistics are measured and compiled periodically with analysis published yearly.

Hong Kong has 50 cinemas and 208 movie screens with gross box office equal to HK$1.54bn (US$198m) in 2010 up from HK$1.18bn (US$152m) in 2009, a rise of a healthy 31%, according to the Motion Picture Industry Association (MPIA). The number of first-run releases totalled 286 features (up from 246 in 2009), of which 54 were locally-produced and 232 were from overseas. These statistics show that there is patronage for local and foreign movies in Hong Kong. As cinemas are usually fully packed without prior booking, it should be profitable to double the number of cinemas to match London’s 566 movie screens (108 cinemas), except the exorbitant rents in Hong Kong deter potential entrants and expansion by existing competitors. The cost of renovation and fitting a cinema requires a huge lump-sum investment which is not justifiable without the security of stable rent for many years.

**Hong Kong movie production is in decline; the movie industry needs better government support**

**Hong Kong has the capacity to open more cinemas but rent is too high for potential entrants**
As for literature, the Hong Kong Book Fair is showing robust demand, attracting 1m visitors (only 1% of whom were from the mainland), each spending approximately HK$522 and crowds of people attending more than 300 readings and seminars. Just as Sophie Hastings put it in the Guardian, people at all levels of Hong Kong society are hungry for culture. Mr. David Starkey, a guest speaker at the book fair also commented, “When I came to this fair, I couldn’t believe the amount of people. It is inconceivable that this could happen in Britain.” Hong Kong should foster this hunger for literature with world-class faculty comparable to NYU Tisch School of Arts (which chose to set up their Asian campus in Singapore).

Performing Arts is another area that requires more government support. Music Matters, the only regional music business conference in Asia, had been held in Hong Kong every year since its inauguration in 2006, except this year. From this year onwards, the 1,200 participant event is moved to Singapore. If the government does not invest more into the arts and culture industry, more events would be lost to Singapore and other competitors.

### Theatre Performances in the Three IFCs

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>London</th>
<th>New York City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Theatre Performances at Major Theatre Per Year</td>
<td>2,480</td>
<td>17,300</td>
<td>12,000</td>
</tr>
<tr>
<td>Number of Music Performances Per Year</td>
<td>1,100</td>
<td>32,300</td>
<td>22,200</td>
</tr>
</tbody>
</table>

Source: HK Leisure and Cultural Services Dept., UK Dept. for Culture, Media & Sport, US Bureau of Educational and Cultural Affairs

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*Overflowing demand for literature in Hong Kong*

*Music Matters, the only regional music business conference in Asia, moved to Singapore*
There are a total of eight orchestras in Hong Kong, inclusive of chamber and Chinese orchestras, (compared to 44 in London). The Hong Kong Philharmonic Orchestra is on its road to attaining world-class status; David Atherton’s Sibelius series and Edo de Waart’s Mahler series have gradually earned critical recognition. Hong Kong also started Opera Hong Kong in 2003 but has yet to open any opera house (Cantonese opera is fast becoming an endangered art with only two qualified playwrights and 20 major actors today). As for theatres, there are currently 14 in Hong Kong (as opposed to 39 in the West End and 55 beyond in London), and two well-established theatre companies, Hong Kong Repertory Theatre and Chung Ying Theatre Company, as well as two well-established dance companies, the classical Hong Kong Ballet and the contemporary City Contemporary Dance Company. All of these institutions are struggling to become world-class without sufficient funding.

Currently, the art and culture industry is missing substantial investment in talent development as well as space to practice and perform. Hong Kong has about 450 graduates per year from local fine arts and design programs but only a small fraction become artists. Taking CUHK Fine Arts graduates as an example, only 5% become full-time artist and 20% become part-time artist. Luckily, new art and design programs from foreign institutions are emerging, such as the Savannah College of Art and Design (SCAD) which opened a campus in Lan Kwai Fong. The world-renowned Central St. Martins of the University of the Arts in London has also been hosting courses through HKU SPACE. Hong Kong can benefit from more partnerships with world renowned schools such as Parsons of New York and Bunka Fashion College of Tokyo.
The music scene is also in lack of talents with approximately 1,100 performing arts students in Hong Kong in 2008, which is 92% less than the 12,800 performing arts students in London. Only about 0.6% in the Creative Arts sector is employed in performing arts because salary is relatively low and opportunities are few. There are about nine professional full-time performing arts group that receive funding directly from the government and about 40 groups that are receiving grants from the Arts Development Council. We look forward to the day when the Academy of Performing Arts becomes comparable to New York City’s Julliard School of Music.

As for space, Hong Kong is benefitting from initiatives such as the Jockey Club Creative Arts Centre (JCCAC), a multi-disciplinary artist village converted from an old factory estate in Shep Kip Mei, opened in September 2008 with the mission to foster art in the community by providing cheap gallery, theatre and studio space (the rent for an art student or graduate tenancies commencing in 2011 is HK$5.2psf/month). With the development of the HK$21.6bn West Kowloon Cultural District and its contemporary museum component, M+ (first phase scheduled to open in 2016), the renovation of the Central Police Station heritage site to a mid-size exhibition venue (scheduled to open in 2014) and the opening of the Asia Society’s new premises in early 2012, the city will shortly be home to world-class cultural and exhibition venues. This, added to the significant work already conducted by organizations such as Para/Site Art Space, Asia Art Archive and Fotan Open Studios, provides breadth to the non-commercial aspect of the cultural scene in Hong Kong, which Hong Kong is definitely in need of in order to catch up with London as a global arts center.
It is an exciting time for art and cultural development in Hong Kong as there is a huge potential for growth. Currently, most tourists do not visit art and cultural facilities but statistics show latent demand. With increased patronage in Hong Kong, we are bound to see a jump in the supply of quality artists to satisfy the growing demand of local production. The government should provide a better infrastructure to facilitate the development of the creative industry. With the right promotion and government support, Hong Kong has a real chance of becoming an arts and cultural hub that can rival New York City and London.

World Cities boast brilliance across the board; the wealth from the city creates demand, transfers wealth and encourages excellence to all industries; from fashion to music to food to medicine to architecture.

The economic strength of an IFC is not limited to its population but benefits from the international consumer who travels to these hubs for the best of what the world has to offer. Competition is particularly steep in an IFC, which encourages excellence in every sector of the society and allows the best to thrive. For example, New York City and London were not historically fashionable cities like Milan and Paris but the best suppliers and the highest-paying consumers of fashion congregate there. These cities are not particular musical either, yet they boast the best music schools in the world and attract the best orchestras and pop music acts to tour there. A booming economy led by finance not only benefits people in the financial sector but has a huge knock-on effect to other industries creating universal prosperity.

This is not just a story of finance, but a story of excellence.
This phenomenon is demonstrated in the increasing employment rate. Since the beginning of the economic recovery from 2003, the numbers of people employed in various major sectors of Hong Kong have recorded steady growth, and the trend is not limited to only the financial sector even if it is one of the major hotspots of economic growth due to the IPO boom. Both retail and accommodation and Food and Beverage (F&B) are expanding alongside finance with similar margins. Cleaning and F&B, two industries that comprise a large portion of lower-income employees, have registered growths of 11.3% and 7.7% in employment numbers respectively in 1H 2011 alone.

Over the same period, an 8% increase in wages of the low-income group has a positive effect on the livelihood of the poorer people in Hong Kong. These encouraging numbers are good proofs that an expansion of the financial sector or other high-output industries can lead to universal prosperity.

**Employment in Various Sectors**

*Job growth is not restricted to finance but prosperity is across the board*

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**Hong Kong is a Great Place for SME Development and Entrepreneurship**

Hong Kong is one of the best places for start-ups and small and medium sized enterprises (SMEs), which are classified as non-manufacturing firms with less than 50 employees or manufacturing firms with less than 100 employees.
Hong Kong people are world-renowned for their entrepreneurial spirits and this is reflected in the number of SMEs in the city – Hong Kong has over 300,000 SMEs, around 25% more than that of London, and its corporate profit to GDP ratio of 35% is among the highest in the world and 60% higher than that of the UK, reflecting the vibrant business environment that rewards innovation with high profitability.

### Hong Kong SMEs As % of Total Business Units and Employment

<table>
<thead>
<tr>
<th>2011Q2</th>
<th>SMEs % Business Units</th>
<th>SMEs % Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>92%</td>
<td>60%</td>
</tr>
<tr>
<td>Mining, Gas and Power</td>
<td>78%</td>
<td>17%</td>
</tr>
<tr>
<td>Import/Export, Trade and Wholesale</td>
<td>97%</td>
<td>80%</td>
</tr>
<tr>
<td>Retail</td>
<td>72%</td>
<td>58%</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>86%</td>
<td>28%</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>70%</td>
<td>46%</td>
</tr>
<tr>
<td>Information and Communications</td>
<td>96%</td>
<td>44%</td>
</tr>
<tr>
<td>Financing and Insurance</td>
<td>89%</td>
<td>30%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>85%</td>
<td>30%</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>95%</td>
<td>41%</td>
</tr>
<tr>
<td>Social and Personal Services</td>
<td>82%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: HK CSD, Trade and Industry Dept.
Hong Kong is also a very convenient and hassle-free place for one to set up business, and fares better across a number of indicators than London in the ease of doing business. On average, it only takes six days and three procedures to set up a new business in Hong Kong while it take 13 days and six procedures to do the same in the UK. Also, according to the Global Competitiveness Report, Hong Kong ranks considerably higher than the UK in the absence of corruption, efficiency of the legal system when settling disputes and flexibility of labour employment along with many other factors that directly or indirectly impacts the welfare of business owners, particularly those owning SMEs.

Singapore also ranks very highly in various indices in ease of business indicators and prides itself to possess the same “hassle-free” factor for entrepreneurs as Hong Kong does. Hong Kong has to uphold its strengths and continue to refine its systems in this aspect as the city would risk lagging behind Singapore in this traditional strength of Hong Kong’s if the government remains complacent.

How Hong Kong and the UK rank in Factors Affecting Ease of Doing Business

<table>
<thead>
<tr>
<th>Factors for Ranking</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rigidity of Employment</td>
<td>1st</td>
<td>1st</td>
<td>18th</td>
</tr>
<tr>
<td>Flexibility of Wage Determination</td>
<td>1st</td>
<td>3rd</td>
<td>20th</td>
</tr>
<tr>
<td>Trade Tariffs</td>
<td>1st</td>
<td>2nd</td>
<td>4th</td>
</tr>
<tr>
<td>Efficiency of Legal Framework in Settling Disputes</td>
<td>3rd</td>
<td>1st</td>
<td>8th</td>
</tr>
<tr>
<td>Number of Procedures Required to Start A Business</td>
<td>6th</td>
<td>6th</td>
<td>34th</td>
</tr>
<tr>
<td>Irregular Payments and Bribes</td>
<td>8th</td>
<td>3rd</td>
<td>21st</td>
</tr>
<tr>
<td>Time Required to Start A Business</td>
<td>13th</td>
<td>3rd</td>
<td>45th</td>
</tr>
</tbody>
</table>

Many of Hong Kong’s service providers are SMEs. As in other industries, most establishments in the retail and food services sectors are SMEs, and account for a large proportion of their respective sector total employment. During the Golden 5 Years, Hong Kong demand for services will increase rapidly as people from all around the globe flock into the city. The natural consequence is that retail sales and restaurant receipts will continue to grow at a sound rate.

**SME – entrepreneurship is alive and thriving in Hong Kong – ensuring maximum competition and best quality for its services**

**Booming Retail and Restaurant Receipts, benefiting SMEs and MNCs**
A Hub of Headquarters for Multinational Corporations: Opportunities abound, but we can no longer rest on past laurels

On 20th October, 2011, InvestHK, HKSAR’s department that supports foreign companies to set up businesses in Hong Kong, announced that there are a total of 6,948 foreign and mainland Chinese companies (5.9% up from 2010) running business operations in Hong Kong by 1H 2011. Simon Galpin, the Director-General of Investment Promotion at InvestHK, was bullish enough to say that “Hong Kong is the perfect base from which to access Mainland China. At the same time, mainland companies are also using Hong Kong as a springboard from which to go global.”

There is some truth in what Mr Galpin said. Hong Kong captured a surprising first place in terms of office presence among 280 major international companies according to the “Business Footprints” report issued by CB Richard Ellis in 2011, higher than Singapore and London.
These numbers also seem to resonate with some facts that the Hong Kong government has repeatedly cited: Fortune #1, Wal-Mart Inc., chose Hong Kong as the location for its Asia headquarters in 2008. The world’s biggest conglomerate, General Electric (GE), has recently set up its Global Growth & Operations Headquarters in Hong Kong. Earlier this year, the chemical giant BASF also decided to retain its Asia-Pacific headquarters in Central, Hong Kong despite increasing rental costs.

The reason for setting up Asia headquarters is very simple; multinational corporations have been reallocating management and financial resources from the slow-growing, mature economies of the West to the ever-burgeoning Asia-Pacific region. Moreover, the increasingly scalable and sophisticated Asian businesses require dedicated business strategies to be developed and tailored from within region, rather than relying on decisions made by people who live far away and are not familiar with the local business landscape.

With the all countries added together, Asia has become too big and complex for MNCs such that it justifies a layer of management to share the corporate headquarters’ responsibilities in managing individual countries’ business units.

Take BASF as an example, it employs more than 16,000 employees in Asia-Pacific and in 2011, for the first time in 146 years of its corporate history, generates more revenue from the region than the entire North America. Wal-Mart Asia now oversees over 600 stores in its three business geographies – China, Japan and India, and is still undergoing aggressive expansions in these countries. It is difficult for one to expect the BASF team based in Ludwigshafen, Germany or the Wal-Mart team based in Bentonville, Arkansas in the middle of US to be able to manage this growth from afar.
As far as the cliché goes, Hong Kong is really blessed with an excellent geographical location for MNCs to manage these emerging Asian countries. As indicated in previous pages, countries within Hong Kong’s four hour flight time have seven times the GDP of those reached by Singapore with the same flight duration. If we take a closer look, the six countries with the highest GDP in the Asia-Pacific region are China, Japan, India, Australia, South Korea and Indonesia respectively. With the exception of Indonesia, Hong Kong is almost on par, if not much closer to these economic giants in terms of flight distance when compared to Singapore. This is arguably one of the most important considerations in placing an Asian headquarters as corporate professionals need to frequently travel around the region to visit individual countries’ operations. One can easily expect most Asia managing directors would rather do day-trips to Shanghai and spend the weekends back in town with his or her family instead of taking arduous five hour red-eye flights from Shanghai back to Singapore and spending the weekend to recover.

However, drawing conclusions based on one or two isolated data-points can be extremely dangerous; if Hong Kong still fares better than the nearby competitors, why did multinationals like CNBC, Disney, Kraft, McDonald’s and UPS all left Hong Kong for Singapore or Shanghai in the past few years? In fact, if we look at a report recently released by the European Union Chamber of Commerce in China and Roland Berger Strategy Consultants that compares Hong Kong’s attractiveness as a location for Asia-Pacific headquarters against Singapore and Shanghai, we might see a much less optimistic picture.
For years, businesses have been primarily attracted to Hong Kong by the excellent legal, regulatory and tax environment. Although we may still fare well beyond Shanghai, it seems that Hong Kong is perceived to have no significant advantage over Singapore on most of these criteria, which is a clear testimony to Singapore’s efforts throughout the past 14 years during which Hong Kong became utterly lost and headed nowhere.

Despite an earlier start, the hare has moved too little and now the turtles have surpassed.
Take the tax environment as an example. Singapore lowered its income tax from 26% in 1997 to just 17% in 2010 to be on par with Hong Kong. On the corporate side, the Singapore Economic Development Board offers a Research Incentive Scheme for Companies (RISC) to help technology-based consumer product and pharmaceutical MNCs such as P&G, Unilever, Abbott and Johnson & Johnson to support their development of full-scale research and development centres. Up to 30% of set-up equipment costs and 50% manpower costs can be co-funded by the Singapore government. As a result, each of the above mentioned companies now employ more than 500 employees in the city-state, instead of just maintaining a small finance and legal function office like they do in Hong Kong. Moreover, one of the many favourable terms offered under Singapore’s Headquarters Award is a concessionary tax rate of 15% for companies that decide to place their regional headquarters in the city for up to 5 years. Compared to Hong Kong’s normal 16.5% profits tax, if tax is one area where Singapore has caught up with Hong Kong, human capital, cost of operations and environmental quality have even become Hong Kong’s shortcomings when compared to competitor cities in the survey:

(1) Human capital – better knowledge and language proficiency required:

As a part of Greater China, Hong Kong was supposed to be in a better position than Singapore in helping MNCs manage their businesses in the world’s second largest economy. However, many companies view the level of Mandarin in Hong Kong as a challenge, yet at the same time visa restrictions on importing mainland talents remain extremely strict (except for special talents like Yundi Li the pianist). As a result, despite the shorter commute, Hong Kong is viewed no better than Singapore in understanding and serving China, and is even significantly lacking behind Shanghai from that angle.
In fact, Hong Kong may have already been losing a lot of opportunities for being under the current gridlock - as part of Greater China but not really understanding it. Take the hospitality industry as an example, the French hotel chain Accor recently relocated its Asia Pacific headquarters from Sydney to Singapore. When asked why Singapore was chosen over Hong Kong or Shanghai, Accor’s APAC MD indicated that “[they] didn’t want to be too China-centric even though [they] have planned major growth in China”. On the other hand, the UK-based Intercontinental Hotels Group (IHG) separated out Greater China from its Singapore-based Asian operations in 2010 to report directly to its corporate headquarters. While many Hong Kong people will have no idea where Tier 3 Chinese cities like Maanshan, Anhui and Suifenhoe, Jilin are located, the hotel group is already having operations there. Clearly the Greater China headquarters for IHG should be located in Shanghai as the city enjoys much better access to these Chinese heartlands.

How urgent is the situation? Let’s remind ourselves that in the 1980s, before Hong Kong, Singapore and Shanghai developed to the level that they could rival for the Asia-pacific headquarters position, the world had placed hopes on one city to become the heart of Asia – Tokyo. Yet despite the better infrastructure and quality of life, the cultural inwardsness and lack of language proficiency hampered Tokyo from developing into Asia’s centre and such an opportunity came to Hong Kong. If Hong Kong does not want to repeat the same mistakes as Tokyo did, Hong Kong needs to move quickly to improve the talent base and better serve its target markets. 

*Hong Kong needs to quickly improve its talent base to avoid Tokyo’s mistakes*
(2) Cost of operations – assistance is needed to tackle ever-rising rents

In the “2011 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong” recently published by the Census and Statistics Department (C&SD) of the Hong Kong Government, 6,948 foreign companies based in Hong Kong were asked to rate Hong Kong’s favourableness against certain factors affecting the choice of setting up their offices in Hong Kong. Although ranked way down the list in terms of importance at 19th among 22 factors, a total of 37% respondents indicate that Hong Kong is ‘unfavourable’ in terms of ‘availability and cost of business accommodation’, while only 20% thinking that it is ‘favourable’. The results are even more stunning when we look at the ‘availability and cost of residential accommodation’, which is ranked 21st among 22 factors; 40% think that Hong Kong is ‘unfavourable’ compared to 15% who think the city is favourable. The level of ‘unfavourableness’ of these two factors are the highest among all 22 surveyed factors.

If we understand the nature of regional headquarters, it is not difficult to understand their negative views. According to the C&SD survey, 85% of Hong Kong’s 1,340 regional headquarters employ 100 people or less. Most Asia headquarter offices often house the region’s most senior personnel in strategy / business development, legal, tax, finance and recruitment / people development – these senior corporate officials are often hired from around the world and their packages vary little regardless of being in Hong Kong or Singapore. For the rest of the support staff, the average salary in Hong Kong is far higher than that in Singapore or Shanghai. Among the remaining costs, rental is the largest and often account for up to 40-50% of operational costs. With an acute shortage of prime offices, Hong Kong rents are twice that of Singapore’s and three times that of Shanghai’s as of first half of 2011, according to Savills Research. If Hong Kong wants to keep these regional headquarters in the city, there is an urgent need to assist them in various ways to cushion against the ever-rising rent.
(3) Environmental quality – air quality needs to be urgently improved

Citing better environmental quality is rumoured to be one of the most important factors that Singapore use to attract businesses away from Hong Kong. Combined data from the Hong Kong Observatory and WHO’s Urban Outdoor Air Pollution Database suggests that although Hong Kong fares better than Shanghai, its air quality is about 50% worse than Singapore’s overall.

While it is true that reliability of these official statistics varies, the widespread media coverage of Hong Kong’s bad air quality is already generating a lot of traction. For instance, the New York Times cited WHO’s data in November 2010 and claimed that “air in Hong Kong is healthy only 41 days of the year”. Foreign professionals who are accustomed to fresh air in their home countries will find it difficult to settle in a place where they choke every day. The government’s meagre efforts in improving the air quality have yielded little results, and must be scaled up if Hong Kong wants to maintain competitive in the region.
4: Call for Action – Opportunities wait for No One, while Hong Kong Has the Potential and Foundations, there are many things the Community Should Do

Hong Kong certainly has the potential and momentum to become a World City if the many mindset, institutional and infrastructural obstacles that are holding back its development are removed quickly. We hereby set forth our recommendations, targeted to enlarge and improve both the city’s hardware and software, in the hope that the entire community can reach up, invest its collective energy into devising public and private sector plans, and turn Hong Kong into an even more prosperous, vibrant, and compassionate World City for this and next generation.

**Action 1: Build Consensus – “Hong Kong, the World City”**

All segments of the community in Hong Kong and the leadership in China should appreciate the processes leading to the formation of a high calibre society which excels in services and a civic value system and in which the world has an emotional and economic stake. This World City attracts talents and the well-to-do to work, live and play in and is a showcase of successful development.

At stake in the Golden 5 Years is the future of Hong Kong’s young and best-educated generation. After c170 years of economic and social development and interchange with the world, the city is already world-class in many important areas. Both Hong Kong and China must understand the potential of this IFC and facilitate its ascendancy to World City
The first two World Cities did not arise from a government-devised building boom. As World Cities are places of ideas and talents, they could only come about slowly, taking well over a century, for international and local networks of people, businesses, skill sets, social infrastructure/institutions and a system of values to grow around hard infrastructure.

World cities grow organically and have an attitude; they want to improve and are adaptive to changes in external environment. As a result of these evolutionary processes, they constantly remake themselves and become well-proportioned and well-adjusted. Therefore they have become comfortable places to be in and make instant sense – they are intuitively pleasing and attractive to global citizens.
One recent example of how Hong Kong has evolved into a World City is provided by the annual release ceremony of The Michelin Guide on 1st December. The Director of the restaurant guide was reported to say: “Quality of restaurants in Hong Kong has kept on improving over the four years of the survey… more and more famous chefs are attracted to set up restaurants in Hong Kong… in terms of the range of cuisine on offer and standards, Hong Kong almost exceeds New York City… more and more local chefs and eateries are innovators, enabling a very high standard of cooking for mass market … Hong Kong people are very lucky! They can easily enjoy the best foods the world can offer!”.

Note that: (1) If asked in which city would one expect to find the only Michelin-3-starred Italian restaurant outside of Italy, most would reply New York City, reason being the high-income and long-established Italian population there. The correct answer is Hong Kong. (2) This culinary quality and “foodie culture” of the city did not arise from a government policy, but evolved from a combination of the cosmopolitan outlook of Hong Kong people, competitiveness of its myriad SME entrepreneurs and the demanding standards set by the customers of an IFC.

In the previous three sections, we have explained why Hong Kong is World-class in finance and many other service industries that collectively account for 93% of the city’s GDP. This level of excellence attracts talents and the well-to-do from all over the world to work and live in the city, and over time, just as the Michelin example shows, Hong Kong improves itself further still.

“In terms of the range of cuisine on offer and standards, Hong Kong almost exceeds New York City…”

This “foodie excellence” is not planned, but a result of evolution, just like processes leading to a World City

World-class in finance and non-finance services – more talents and well-to-do will come, to feed a virtuous cycle, leading to a World City
A virtuous cycle has started and Hong Kong can rise to new heights and joins London and New York City. However, to get there, China must allow the corporates and talented individuals who would like to come south to do so, living out the “One-country, One-market” configuration so that the economic relationship is as two-way porous as that between Hong Kong and most of its trading partners. This level of porosity will most probably lead to significantly stepped up usage of Hong Kong world-class service platform, creating demand on services from and jobs for the most educated generation of Hong Kong and the talents that will be coming to the city. Currently, the size of operations of most mainland securities firms in the IFC is estimated to be less than 10% of the size of the average western peer. There is much room to grow. However, much investment in hardware and software by the community is needed in order for that rosy future to materialise for Hong Kong.

Our first research report, “Hong Kong – The Golden 5 Years (2010-2014) and the Decline that may follow…?” explains why Hong Kong has the needs, the means, but not the will to invest in new service capacity and capabilities. We continue to forecast fiscal surpluses to exceed HK$100bn for each of the next three years, amongst the highest in Hong Kong’s history. In our next research report, “How to invest HK$100bn for the next generation”, we will explore how best to leverage on the business opportunities in these few years by spending public surpluses purposefully.
Nothing can illustrate to all segments of Hong Kong people more clearly the need for action today than when everyone can see that after years of under-investment in Hong Kong by the private and public sectors, a shortage in hardware and software has started to manifested itself through:

- insufficient spaces for shops, offices, hotels, homes, hospitals, universities, training centres, conference and exhibition centres, sports facilities, local and public schools, performance spaces, libraries, youth activity and study centres, computer facilities for the under-privileged children, columbarium …

- soaring rentals, high property prices, long queues for public and private housing and public and public hospitals...

- shortages in doctors, nurses, professionals and workers across most sectors (unemployment rate 3.3% and expected to stay low as demand remains high while workforce starts to fall continuously from next year)

The unprecedented inflow of opportunities in the Golden 5 Years marked the tipping point where demand for services started to overwhelm supply and Hong Kong inflation began to flare up and hover around the 6% mark, against average level of 0% in the first 14 years of the reversion to China.

Consider the prospects of a much better and bigger service/jobs platform for the next 50 years when the community successfully converts the favourable inflows of business opportunities in the Golden 5 Years. Consider also the possibility that a failure to grow will injure Hong Kong as lack of hardware/labour shortage corrode service standards and drive customers and jobs away while inflation erodes savings of the retirees. We argue that at no point in time other than during World War II, that citizens of Hong Kong share a clearer common purpose than that of today. And this consensus calls out: “invest and become a World City”.

Symptoms of shortage of hardware and software are everywhere – there is a clear call for community to act.

Considering the binary outcome facing Hong Kong in The Golden 5 Years, there already exists a common purpose for all segments of the community to “invest and become a World City”.

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Action 2: Build World-class Hardware

(1) Increase Land Supply – and build better (environment-friendly and efficient) hotels, offices, shopping places, public and private housing, hospitals, universities, local and international schools, public amenities (sports facilities, libraries and study centres etc)… creating the space for new and better jobs and better environment for everyone

High rents and space availability remain huge barriers for businesses to operate competitively in Hong Kong, we argue. From MNCs to mom-and-pop shops, the lack of office and retail space is forcing rents up and pressurising operating costs, at times even forcing closure of successful businesses and deters start-ups and entrepreneurship. The financial burden induced by high rents eventually shifts to consumers, locals and tourists alike, inciting inflation. This persisting situation will harm Hong Kong’s competitiveness and attraction as a World City; as businesses and MNC’s relocate to Singapore, Shenzhen or Shanghai, where rents are often only one-third of Hong Kong’s.

Hong Kong is turning customers away because (1) it simply does not have the space for them or (2) rents for the available spaces are prohibitive – good jobs, skills and business networks are denied to the young and best educated generation.

Prime Street Shop Rental Index (Q1/03=100)

[Graph showing rental index with data points for different years]

Source: Savills Research & Consultancy
If we use rent levels as objective indicators of tightness of supply Vs demand in the market, priorities for the government to produce developable land seem mis-placed. While housing rents have barely returned to their peak levels in 1997, rents for shops and offices are already double their elevated levels 14 years ago. Yet the bulk of this October’s Policy Address was devoted to public Home Ownership Scheme.

Prime street shop rents have more than doubled their 1997 peak

Office rentals are expected to double their 1997 levels in a year’s time

It is important for the community to remember the 1998-2003 downturn in Hong Kong property cycle. If there is one lesson to learn from that painful episode, it must be that when residential prices had come down 70%, very few people could afford to benefit from the cheaper prices to buy homes. This is because unemployment had surged to 8% at that time as a lot of jobs at the time were in related to real estate and investment.

This suggests that, for the quality of the economy to improve, Hong Kong must take on more sources of employment that are not correlated to real estate. In the Golden 5 Years, this is happening. Jobs to sell luxury items to tourists and corporate financiers preparing a mainland corporate for IPO are not related to the property cycle. This time, if there is any price weakness in real estate, end-user support will be at hand. But the new jobs created by these growing sectors require the production of new shopping and office spaces to house.

Increasing land supply for retail, office, hotel, housing and public use is the city’s most urgent call – Hong Kong has underperformed its peers badly in the past decade and cannot afford to lose more opportunities
Launched this October, the government’s initiative “Enhancing land supply strategy” is a step in the right direction and the public should not only support this but encourage the government to accelerate the steps to create developable land as most of the recommendations therein take in excess of eight years before land is produced.

This initiative calls for the production of some 2,000 ha of developable land, or 2% of existing landmass of the territory in order to prepare for a rise in population from 7.1m in 2011 to 8.4m by 2030, according to the 2030 Project which has prepared the forecast.

Furthermore, the government should quicken approvals for projects already in the pipeline so that existing sites can be quickly developed to provide relief to current shortages.

Suggestions by Professor Richard Wong of the University of Hong Kong School of Economics and Finance on “liquefying” the entire stock of HOS units are clearly workable. These methods will add significantly to economic efficiency as thousands of households can regain mobility and move to the districts they want to live in instead of getting “stuck” in the places they were allocated units many years or even decades ago. This will also quickly free up many units for first time homebuyers.

While some in society may worry that the prices of their homes may soften in the face of an increased demand, this concern may be misplaced when the following is considered. In the context of rising business and job opportunities entering Hong Kong, the more such are “locked down” by the production of new spaces, the bigger will the collective incomes pool in Hong Kong and the stronger will be the support on real estate prices. On the contrary, if such income opportunities are turned away, the collective pool of incomes in Hong Kong will be static hence even a small increase in supply of spaces cannot find strong support.

Do this: Support the government’s new initiative to create new land and land reserve – and also encourage faster implementation and bolder steps

Professor Richard Wong’s suggestions on HOS are clearly workable

More spaces, more opportunities, more jobs, more incomes, more support to real estate
We may consider exploring in more detail the means to produce more land in what will be our final research report “How to produce more land for Hong Kong”. In any case most of the supply sources are not likely to be able to lead to developable sites in under seven or eight years. In the meantime, when demand for space is so strong, the community must tap all sources of space that can be developed quickly and we include three of these and give a brief discussion thereon:

(1) North Lantau, including commercial sites owned by Hong Kong International Airport (HKIA) at Chek Lap Kok (we term “Gateway to the World” or GTTW) and “Greater Tung Chung”, Kai Tak and Yau Tong reclamations

Over the past five years, the public have started to attach a bigger premium on living in urban areas. This suggests that new spaces to develop must be readily linkable to existing major lines of transport. A rigorous public discussion is essential for the smooth execution of these sites but as we believe once the community becomes aware of Hong Kong’s fortuitous but precarious situation in the Golden 5 Years, there should not be any delay in going ahead with public consultation.
“Gateway to the World” or GTTW

One of the immediately usable sites situates at the northeastern fringe of the HKIA is next to the forthcoming Hong Kong–Zhuhai–Macau Bridge and possibly, even a new Hong Kong–Shenzhen Airport Railway Link. This site is capable of supporting a huge 1m sm (GFA of almost 11m sf) commercial development. This project entered into public discussion a few years ago and should be re-considered as it appears readily developable, with the site already formed and approvals from town planning authorities obtained. The completion of the cross-Delta link will bring new customers from the Pearl River Delta (population of 70m) to Hong Kong on top of the continued rise in demand by mainland visitors (over 23m arrivals this year). We will discuss this project in more detail in our next research report, “How to invest HK$100bn for the next generation”. We envisage the facilities to provide space for mainland visitors who want to: (1) use Hong Kong services, including medical, educational and financial and (2) buy retail goods, including medicines, cosmetics, factory-outlet type products. This project should produce a lot of job and business opportunities to Hong Kong and provide relief to the some urban areas.

“Greater Tung Chung”

We envisage Greater Tung Chung to comprise the underdeveloped new town Tung Chung, the adjacent Tai Ho and Siu Ho districts which contain the MTR depot. A more contiguous district offers better facilities and intra-district access and helps to put right a feeling of “isolation” by some existing residents. We will leave discussions on the other reclamations to a later report.
2) Boost Hong Kong’s Appeal as Travel Destination

Heavily dependent on tourists’ spending which accounts for 52% of its retail sales, Hong Kong’s economy and employment (nearly 30% of the workforce in retail, catering and hospitality etc) is extremely sensitive to the sector’s continued strength.

Hong Kong is the second most-visited city in the world and will likely surpass New York City, in another two to three years, as the most popular city-destination in the world hosting 58m visitors a year. While most visitors love to shop in the shoppers’ paradise, hardware is increasingly inadequate and scenes of customers queuing outside shops are getting more common. The deterioration of service quality will get more obvious with the arrival of each additional visitor and active steps must be taken to cater so that reputation will not be compromised by short-term growth. Singapore and Shanghai will only be too glad to take any visitor deserting Hong Kong’s falling standards.

Hong Kong must invest significantly more in providing physical space and entertainment content to visitors. The West Kowloon Cultural District (WKCD) must proceed without further delay, for instance. Cultural and historical tours should be promoted to highlight interesting places like Che Kung Temple, Sam Tung Uk Village and Ping Shan Heritage Trail, and for which better infrastructure like better road signs, tour guides are provided. Furthermore, with over 40% of land designated as country parks, Hong Kong can establish itself as a destination for outdoor activities, including snorkelling in Hoi Ha, paragliding in Tai Po and Sai Kung, windsurfing in outlying islands, hiking along scenic trails among many others. Just as these tourist spots would attract families and outdoor lovers, corporate and international organizations can also take advantage of these hotspots to host annual teambuilding events.

Enhancing Hong Kong’s tourist industry is crucial to strength of economy and employment

More cultural and artistic content; WKCD must proceed immediately
West Kowloon Cultural District Underground Mall

Hong Kong has no new “destination” mall (sized 1m sf+) on its drawing board. To cater for the rising customer stream, new spaces have to be built. Professor Kwok-pun Cheung of University of Hong Kong Faculty of Architecture delivered a report to the Legislative Council in March 2011, suggesting the possibility of utilising underground space beneath WKCD. The suggestion, however, was shelved before much public discussion, dismissed mainly on financial grounds because of its (perceived) scale.

Professor Cheung’s proposal of an underground commercial use in WKCD makes good sense.

Hong Kong needs much more shopping spaces, especially in the popular urban areas. The WKCD underground useable space may amount to 15m sf, based on the development guidelines set by the government with 20% of total space allocable to commercial use. In our third report we propose using 2m sf of this space for retail use, providing a much-needed destination mall both for Central/Kowloon and neighbouring terminal of the Guangzhou-Shenzhen-Hong Kong Express Rail Link which puts the affluent residents of Guangzhou and Shenzhen within 48 minutes’ reach of its offerings. We shall demonstrate that the return of such destination mall could offset the high construction costs involved. The world-class shopping facilities underground should complement equally world-class cultural offerings above ground.
A lot of new citizens of Hong Kong started their love of Hong Kong with their first trip as a visitor. The attractions of a World City are instant – the pace of life, the harbour and the hills, the excellence of services etc. quickly endear and before long, one is smitten. Hence, a wonderful experience as a visitor is a key to attracting talents and the well-to-do to Hong Kong. This is often how a World City gathers its strengths by setting up a virtuous cycle whereby quality businesses and people are drawn towards it and this raises demand for quality services and then businesses respond to this demand and improve further, providing even better experience to the next visitors, some of whom will choose to stay…

“Bitten by the Hong Kong Bug”
- It started with a trip…

**Action 3: Build World-class Software**

(1) **Reinvigorate the city’s medical capacity and unleash its potential**

A quality healthcare system is a prerequisite to making a city attractive for business talents to reside in. Luckily for Hong Kong, its medical system is among one of the world’s best, with the world’s lowest infant and maternal mortality rates, together with the highest cancer survival rates far exceeding those of Europe and the US. Take the five-year relative survival rate for stomach cancer, one of Hong Kong’s biggest killers, for example. 38% of stomach cancer patients in Hong Kong survive compared to only 25% in Europe and the US.

*Hong Kong offers quality healthcare, crucial for attracting talents to the city*
The quality of Hong Kong doctors is undeniably world-class as Hong Kong provides exceptional medical training. Unfortunately, inadequate planning in both hardware and software has strained Hong Kong’s medical infrastructure and cut back the quality of healthcare provision. A vivid example is the slow-down of hospital construction over the past “lost decade”, when virtually zero hospitals were built. It is stunning how no hospitals were established in the 2000s at all when eight were built simultaneously during the 1990s. Since the establishment of the Tseung Kwan O Hospital in 1999, the only new hospital still undergoing construction is the one in Northern Lantau that is now estimated to be in limited operation in 2013, which is 14 years after the start of the project. As absurd as it is, the long adieu hospital offering 160 beds can only start operating at full capacity in 2016 due to the lack of long term planning in medical manpower. Only 87 medical staff is available for the new hospital in 2012-2013, although full capacity requires 650 headcounts in total. This recent piece of shocking news is a perfect showcase that the combined effect of insufficient hardware and software is intricately linked to the depreciation of medical service capacity. Increasing reports of sentinel events is a clear reflection that the shortage of medical staff acts as a huge constraint for quality healthcare provision. There are currently some 12,000 doctors in the city at a ratio of 1.8 doctors per 1,000 population, much less than the average of 3.3 doctors per 1,000 population that OECD countries enjoy. Even with an efficient team of well-trained professionals, the demanding workload of over 60 hours per week on average lowers the service standard that a doctor provides. Long waiting hours for medical attention is a side effect of the severe manpower shortage, seriously affecting the accessibility of medical services. With an aging population that is increasing inpatients by one-third in 30 years, medical care shortage will not only persist but would be fatal. If Hong Kong does not take action to expand both software and hardware, the quality of medical services would sink to a third world country level.
The current supply of medical professionals and facilities cannot even support the local medical demand; Hong Kong is crippled in its capacity to support the additional medical demand from expatriates. To reassure expatriates that Hong Kong lives up to its brand as a World City, it must offer top-notch medical services, which means the first and foremost priority is to create enough beds, medical equipment and other facilities for the increasing patient population. The Government needs to speed up the grant of the four sites allocated for private hospitals in Wong Chuk Hang, Tseung Kwan O, Tai Po and Lantau, to expand the capacity of private hospital services by one-third. Equally important is to speed up the construction of public hospital facilities. Kowloon East and New Territories East are facing a dire shortage of hospital beds, areas that the Hospital Authority needs to address as soon as possible. Should an epidemic erupt (causing a quick and exponential jump in demand such as that from the SARS crisis), even if additional overseas medical professionals come to Hong Kong to relief the demand of medical attention, there would not be sufficient hardware to accommodate the patients.

Together with hardware provision, a strong team of doctors is essential to accommodate the spike in both local and foreign medical demand. Even with 420 doctors entering the workforce each year starting from 2018, there are simply not enough full-time equivalent doctors to accommodate the surge in patients with increasing medical needs; an imminent result of the demographics. The retirement tide of the baby boomers in 10 years’ time will only add to the burden of manpower shortage, resulting in a shortage of doctors by one third in 30 years’ time. Medical services will be strained and more cases of medical negligence would be expected, let alone offering a quality medical system that a world-class city should provide. Our fourth report on how to create a World-class medical system highlights solutions to this burning issue.
Hong Kong needs to be more creative in supplying doctors to prevent a breakdown in its medical system. Currently 98% of its fresh blood is sourced from the University of Hong Kong and the Chinese University of Hong Kong. Only 8-10 overseas doctors are admitted to the territory each year due to stringent standards set by the Medical Council’s licentiate exams with an average passing rate of 8%. Singapore on the other hand opened the doors for overseas doctors in 2004 and its doctor population and medical standards have surged ever since. The number of doctors increased by 1,392 to more than 8,300 from 2007 to 2009, with around half of them trained overseas. This is an area that Hong Kong not only needs to catch up to match the standards of its peer, but the lack of medical hardware and software is so dire that Hong Kong has to take action immediately to protect the local medical demand of its citizens. Hong Kong needs to take drastic steps to liberalise doctor intake before it is too late. It must introduce foreign doctors and expand its local capacity of producing medical students concurrently, or else it will meet its fate of severe deterioration of medical care quality in the coming decades.

With the world’s leading Western and Chinese medical experts practicing in one city, Hong Kong has the enormous potential to transform itself into the medical service hub of Asia where the practice of Western and Chinese medicine intertwines. The government needs to proactively support and invest in the medical industry as it promised in its 2009-2010 policy address. Not only can such actions respond to the skyrocketing healthcare demand, additional investments can also create a uniquely world-class practice of evidence-based fusion medicine that would boost interest in medical research (especially in the academic circles) and employment in the healthcare sector in general, and offer an appealing medical community that attracts the best and the most innovative talents. Thus, investing in medical software and hardware is an impending priority that offers a win-win solution for all.
(2) Enhance tertiary education attainment

Grooming a World City depends much upon the talent pool of the city. Given the importance of knowledge in today’s economy, one should expect that nowadays most talents have significant exposure to tertiary education, the summit of contemporary education. Hong Kong currently only has 18% of its population graduated from universities, much lower than that of many other developed regions in the world. In contrast, Singapore has 23% university graduates out of its population, and the United Kingdom at 24%; leading Hong Kong by 5-6 percentage points.

Compared with London, the “model World City”, Hong Kong falls behind by around 14,000 university first-year first-degree places per year. If Hong Kong is to attain London’s standard in tertiary education sector, the prerequisite is to raise university enrollment rate. Given that London receives students from its hinterland (the entire UK); one should view the shortfall according to Hong Kong’s hinterland, the Guangdong province too. The number of government-subsidised university places should be increased to enhance local educational attainment as well as accommodate more students from Hong Kong’s hinterland – the south-flow “porosity” of mainland students.
Mainland students constitute the lion’s share of Hong Kong’s non-local students in both undergraduate and postgraduate level. Most of them come here in pursuit of high quality of education and the prospect of settling down in Hong Kong. Their choices unconsciously set the path of Hong Kong towards the education hub of China, through excellence both in academia and teaching, and social institutions at large. All Hong Kong needs is government policy and financial support. It is obvious that facilitating more mainland students pursuing their undergraduate studies in Hong Kong is of prime importance to increase the supply of university students in Hong Kong both in the short and medium term, before Hong Kong’s birth rate could catch up. More importantly, by enlarging its talent pool and deepening its educational attainment, the city grows in terms of creativity, vitality and potentials for sustainable organic development. We shall address this issue more thoroughly in our third report.

(3) Make Hong Kong a “Magnet” for Mainland Talents

Evident in the widening gap between Hong Kong and Singapore’s economic performance since 2003, empty policies implemented by the Hong Kong Government over the past “lost decade” has made the race an easy win for its proactive contestant. In the past ten years, Singapore has been attracting wealth and talents with its deliberate income-accretive immigration scheme, while Hong Kong’s immigration policy has remained reactive in comparison, with strategic decisions mostly dictated by the mainland.
The Closer Economic Partnership Agreement (CEPA) in 2003 enhanced flows of human capital into the mainland yet kept the doors closed for Hong Kong to absorb talent from the North. A survey in July 2011 reveals that 83% of mainland graduates from the University of Hong Kong wish to contribute to Hong Kong’s economy upon graduation. Despite a bountiful talent pool of mainlanders eager to contribute to Hong Kong’s economy, little has been done to retain these talents. Not only can these talents add value to Hong Kong’s economy, the connections they bring can strengthen and broaden networks to Hong Kong, offering overseas businesses to access the inflows of people, capital and opportunities from China. An imminent priority for Hong Kong, therefore, is to strengthen its import of mainland talents by actively engaging in a “southward policy”.

Currently, a large portion of mainland graduates are concentrated in the financial sector. The importation of mainland talents need to be extended to other academic disciplines such as marketing, medicine and social service, so Hong Kong can truly become a service centre of all types of services as well as a full-fledged connection node between China and the rest of the world, and achieve the “One Country, One Market” objective with a high level of economic integration.

(4) Attract and Retain International Talents

A world city cannot be truly international without expatriates adding colour to its cosmopolitan nature. Hong Kong lives up to its brand with a myriad of businessmen from all parts of the world living in the city. As mentioned above, the influx of French nationals carries a significant indicator of Hong Kong as a congregation of international talents. However, recent developments have showcased some glaring deficiencies that critically undermine Hong Kong’s attractiveness to overseas talents.
The shortage of quality international schools in Hong Kong is a major inconvenience for expat parents, driving experienced talents out of the city. 75% of the British Chamber of Commerce’s members reflected their businesses in Hong Kong are detrimentally affected by the lack of international school places. Surveys carried out by the American, British and Canadian chambers show similar conclusions that expats are moving to other cities such as Singapore for they cannot secure a place for their children at an international school. Jim Rogers is a real life example who chose to relocate to Singapore over Hong Kong because Singapore offered a better environment for children.

There are 33 international schools in Hong Kong with approximately 35,000 student places, yet over 140,000 expatriates reside in the city. Expat parents often find themselves in waiting lists reaching into the hundreds when they try to secure a place for their child. Some expat mothers even put their new-born babies on the waiting list of primary schools, years before the baby is set to attend. Some schools require debenture deposits of up to HK$5m to secure a place.

The waiting list situation is so dire that some multinational corporations are resorting to only hiring single or childless employees for expat positions in Hong Kong. To better accommodate talents in Hong Kong, hardware for education services is crucial. The government needs to actively encourage more international schools to set up in Hong Kong, using financial incentives if necessary.
Poor air quality has frequently been cited as a factor undermining Hong Kong's competitiveness and appeal to foreign professionals, whom often choose the “Garden City”, Singapore for its fresher air. While it is commonly believed that pollutants affecting Hong Kong originate from industrial areas in mainland China, excusing Hong Kong’s part to alleviate the problem, a report issued by the Civic Exchange reveals otherwise: local pollution sources are the crucial factor influencing Hong Kong’s air quality 53% of the days in a year. In other words, Hong Kong citizens are primarily responsible for its city’s air pollution.

Road and marine vehicles make up the bulk of local sources, and measures should be taken to tackle pollution from them. Hong Kong’s huge fleet of diesel buses causes 40% of roadside emission; emitting over 80% of nitrogen oxides and 90% of respiratory suspension particles from vehicles, and 75% of buses are heavily polluting pre-Euro II models. The first step to cleaning up Hong Kong’s air should be the replacement of a large portion of these dirty buses into newer Euro V or even electric models – Shanghai is already building a zero-emission electric bus fleet, and there is no reason why we Hong Kong people, who always take pride in being at the frontier of technological advances, do not invest in fleet replacement. While the recent Policy Address has proposed a HK$180m funding for bus companies to purchase 36 electric buses for trail runs, we believe that the process of bus replacement should be completed as quickly as possible once the trail runs prove to be technologically feasible.

Besides replacing old buses, Hong Kong should also address other major sources of air pollution such as ships, power stations and private vehicles. Initiatives including restricting the use of marine vessel fuel to cleaner low-sulphur variants, speeding up the research and development of renewable energy sources, and further tax subsidising plans on environmentally-friendly vehicles should be explored by the government. A good environment is crucial to the image of the city and Hong Kong can never hope to gain respect on a global stage if the skyscrapers are buried in a toxic mist.
(6) Promote the city’s Art Scene

Hong Kong needs to groom its art and culture scene towards maturity and recognition to gain an equal standing with other World Cities. In Hong Kong, quality and quantity of audience and professional art talents are overall wanting – this is not to say Hong Kong does not have discerning connoisseurs and great artists, but they are few in number when compared to London and New York City.

Hong Kong has always been criticised as a “cultural desert”, a city without art. The general impression of art in Hong Kong is negative: the conventional education system pays minimal attention to art; many artists are constrained by livelihood to go amateur, relegating their creative vocation to spare-time activities. All these cultural non-achievements waste the colossal spirit of worldwide cultural exchange Hong Kong enjoy “the meeting place of East and West”. Because of this, general outside consensus paints quite a negative picture of Hong Kong attaining the status of London or New York City, a “real” international financial centre, which also reigns as cultural centre. Nevertheless, we can proudly today proclaim that this negative portrait of Hong Kong no longer conforms to reality now; imminent demographic evolvement in Hong Kong bestows a golden opportunity to embark on a substantial development of Hong Kong art and culture industry.
With an emerging trend of the appreciation for art and culture (as evident from strong art and book fair attendances), Hong Kong’s art scene has all but one ingredient to flourish globally: government support. The West Kowloon Cultural District, groom to be a crucial part of Hong Kong’s evolution into a global cultural centre, has seen non-stop delays and insignificant funding to make this project a reality. This lack of government dedication in cultural development is very worrying, as a vibrant artistic and cultural community is one of the keys to the well-being of individuals and societies. As mentioned before, professionals value their quality of life and consider the artistic and cultural offerings in their decision about where to live and work. London and New York City boast flourishing, world-renowned cultural sectors; for instance, the West End and Broadway are widely viewed as global trendsetters in culture.

London has been the centre of cultural exchange of Europe and the world by large since 18th century. Densely populated with opera houses, theatres, concert halls and museums, London is the only city which houses five world-class orchestras, and the exchange and fusion between “high” and “low” art are amongst the most fertile in the world. A wide variety of art colleges in every imaginable discipline never cease to train talents and connoisseurs for the city’s art scene: the West End joins the Broadway in New York City on the pinnacle of musical theatre; Permanent exhibition of one of the largest collections of worldwide modern visual art is in the Tate Modern; the South Bank is the hub of street visual and performing arts.
For New York City, nicknamed “The Big Apple”, despite its comparatively shallow cultural heritage given a mere two centuries of the existence of the US, the city has been attracting talents all over the world and evolving into a melting pot with its distinctive traditions and cultures outside the European mainstream. Many patrons, usually businessmen, and talents are of immigrated origin, the symbiosis of which established sustainable patronages from late 19th century onwards; for instance, the Elizabeth Sprague Coolidge Foundation. Since the end of the Second World War, the Federal and State governments has taken more proactive stance towards art commission and sponsorship. Hardware-wise, New York City is blessed with two of the most renowned performing arts institute in the country, as well as in the world, The Juilliard School and the Eastman School of Music.

Offerings in Hong Kong are less diverse than other cultural hubs mainly due to two reasons: audience’s unresponsiveness and limited venue availability. As an illustration of the matter, the Hong Kong Cultural Centre is fully booked two years in advance, but only 12% of performances there are from international groups. The first reason has been gone through above, sufficient to add that internationally renowned music performers and groups have increasingly bypassed Hong Kong to give concerts in Shenzhen or Guangzhou (let alone Tianjin, Shanghai or Beijing), citing declining attendance as one cause. For the second reason, both the quality and quantity of cultural hardware in Hong Kong are in severe shortage, which cannot even satisfy local need.
Although various bureaucracies of the Leisure and Cultural Services Department may come into play during notoriously difficult and protracted bookings of medium and small-sized art groups, which reflects a certain amount of supply and demand mismatch, there can be no denial that in general Hong Kong is short of hardware for all walks of art in absolute terms when compared to London; for instance, Hong Kong is the only metropolis in the world that does not have an opera house. Quality-wise, many performing venues in Hong Kong are multifunctional, that means they are makeshift and do not suit a particular usage as best as a specific facility for instance, a town hall could be used as a concert hall, a theatre or even a place for painting or photography exhibition, but acoustically as well as illuminationally it can barely satisfy any of the three designations. A famous example is the unceasing criticism of the poor acoustics of the concert hall in the Hong Kong Cultural Centre, as summarised by eminent Taiwan-Hong Kong literary critic Leo Ou-fan Lee in his two books of music criticism. In the hardware part, the government should first have all existing performing venues overhauled, as well as build more future performing venues with world-standard specifications in mind.
For audience, attendance rates tend to be much higher for large venue events and those with globally recognised artists and local pop celebrities, whereas classical concerts, say some flagship ones in the Hong Kong Art Festival, and other sundry performances fare not as well, with many seats filled due to heavy subsidy. Lack of local audience in general has actually driven many artists and art groups to turn increasingly to the international stage. To see how detrimental it could be, we may refer to a Hong Kong Radio interview last month with local film director Danny Wan-cheung Cheng (alias Scud) (director of City without Baseball, Permanent Residence and Amphetamine), who stated plainly that audience’s apathy for reflective art is one of the main reason he eventually imposed a self-exile in further creative work in film. Therefore, audience-targeting promotion is the key to generating audience interest, in two ways: the government should provide stipend to advertising agencies to help local artists develop brand awareness and art education of all ages to develop citizens’ knowledge and sensibility for art appreciation.
For professional art talents, although many make a tentative beginning of their creative career as students participating in performing arts in school, lack of funding and support means very few professional talents are eventually being developed, which hinders development of local production. Coupling with the generally low attendance rate, revenue in the art and cultural sector is generally low but cost is high. Consequently, most artists are forced to take side-lined jobs to make ends meet, whereas most art groups rely heavily on government subsidies. According to the Arts Development Council, 60-70% of performing arts activities in 2007 are subsidized by the government, thus shows often have lower revenue per seat compared to international peers. Worse still, artists and art groups are thus in constant shortage: not only that the size of the art and cultural sector lags seriously behind London and other metropolises, but also that this insignificant size in no way could possibly reach the critical mass required for triggering clustering effect thus fuelling sustainable vibrancy in local art scene. In view of this part, only more generous, discerning and systematic government subsidies may do, but bear in mind that the crucial part lies in audience not professional art talents.

Locating performing venues in Hong Kong has been based on needs of local districts, thus neglecting the clustering effect that could be created by location proximity of different art facilities. This is why the West Kowloon Cultural District master plan was keenly awaited in the early post-handover years. For the problems we have spelled out above this section, such art complex, if scrupulously planned and executed, can kick in as an enabling factor: satisfying demand and supply for art and cultural activities simultaneously. Nevertheless, the commencement of West Kowloon Cultural District Construction has somehow entered into a stalemate by now. Our next part focuses on the dire situation and recommends a full speed construction led by the government, targeting the opening of one-third of the site by 2018.
7) Kick-start adequate funding to ensure a timely opening of the West Kowloon Cultural District

During the past decade, Hong Kong demographics transformed subtly. The baby boomers, born right after the Second World War, occupy the largest share of the city’s male population, now aged 45 to 54 with a median of 50 years of age. These 600,000 “Golden 50s” are approaching their retirement now, with plenty of cashable savings and, in the near future, plenty of time. Many retirees may want to stroll around the museum, watch an opera, view or even acquire a painting; these changes in consumption pattern are going to drive up demand for art and cultural activities. Right now is the golden moment building the West Kowloon Cultural District (WKCD): if WKCD were opened a decade ago, the baby boomers would still be fighting for their life, worrying for daily life of their parents, the tuition fees and prospect of their children and the imminent retirement of themselves, such that they did not have the vigour nor the mood to go out in holidays, let alone appreciating art – WKCD would then become a white elephant, a waste of taxpayers’ money; if WKCD construction were delayed for a further decade, by the time of opening the baby boomers would have turned seventies, physical decline inevitably set in – at that time, how beautiful the scenery the WKCD praya is or how precious the collection of paintings WKCD exhibits simply would not matter much, since the majority of citizens would be way too old and ill to enjoy.
Following the gradual rise of China, worldwide attention has increasingly turned to Oriental art, and the centre of gravity of art and cultural activities has been moving from the West to the East. Nowadays more and more local and international art connoisseurs gather together in Hong Kong, which we expect to increase further in parallel with the increase in corresponding demand. This is not wistful optimism: record-breaking art fair auction (ART HK) this year and the rapid expansion of the number of top galleries in Hong Kong are just tips of the iceberg.

Some may feel strange about the unrevealed relationship between art fair auction and galleries, and art and culture in Hong Kong. From a straw we know which way the wind blows, these tips of the iceberg are the pivots of Hong Kong blossoming into a cultural oasis.

Centre of gravity of art and cultural activities move from West to East; Hong Kong is one of the prime places to land on

Prosperity in Hong Kong art fair auction and galleries shall diffuse to all walks of art
Although now we only observe the progressing prosperity of the visual art market, there is an underlying “art chain” linking up one art form to another. Common sense tells us that those who appreciate art seldom appreciate only one particular form of art; for instance, many film aficionados also appreciate drama, and many music lovers come to appreciate literature through lied or opera. The concept of “flow begetting flows” applies in the art world too, we thus can expect that prosperity of visual art begets prosperity of other art forms; as those who appreciate visual art involve more and more in their appreciation, their horizon in art is broaden, so demand for other art forms arises accordingly.

Moreover, art and culture has been dependent on patronage for the better part of history. Starting from Renaissance, bishops, kings and princes competed to sponsor painters and sculptors to decorate patrons’ life with classical and elegant artwork. These high and mighty patrons quickly saw the benefit of artwork beyond their own personal consumption; artwork with grand conception became an ornament of the state’s might and glory. Subsequently, patronage grew progressively extensive to include music, philosophy and even astronomy. Renaissance giants Da Vinci and Michelangelo started and lived through their entire creative career under patronage; Mozart and Beethoven struggled against yet, at the same time, benefitted somehow under patronage. Princely patronage by and large ended with the upheavals in 19th century: individuality of artists began to be appreciated; the mode of governance transformed from despotic absolutism or oligarchy to relatively democratic ones; the objective of state finance changed from satisfying the extravagant taste of the ruler to a responsible use for the benefits of the people and the state. In this context patronage was gradually transferred to the state, resulting in innumerable government commission and sponsorship of art and cultural hardware. Modern patronage usually does not seek to glorify the ruler or the state, but to encourage multiculturalism, individual and culture consciousness, and planting trees and seeds of humanities amid the modern technological world.
The most crucial change of the past two centuries with respect to art and culture, broadly mentioned above, is that of economics, which links art and culture, and the economy of the place together. In contemporary society economic growth can drive demand in art and culture through wealth effect. In other words, a society has to be more abundant so that its people have the resources and leisure to participate in art and culture activities; and the only way to raise the level of abundance of the society is through more economic activities which generate real growth. Our comment above describes the present situation in Hong Kong well: though there are growing concerns from everywhere in Hong Kong about possible negative influence of the European debt crisis and global economic downturn, our research shows that the cyclical global downturn will be offset by structural growth in Hong Kong local economy, which means the economy will remain robust in short to medium run; government fiscal surplus will run as high as HK$100bn for the coming three years.

Given Hong Kong’s robust economy in short to medium run, now is the right timing for the commencement of real WKCD construction.
According to the master plan of the WKCD Authority, only a part of the Great Park and some small-scale exhibition centres would be opened in 2015. Counting also the parts of adjacent mall which would open at the same time, the total opening area of WKCD by then would be a mere 9% (~700,000 sq ft) of the overall conception. Everyone can expect the origin intention of building a (physical as well as spiritual) landmark in WKCD would be entirely lost when the 2015 “first phase opening” reveals a “park cum small-scale exhibition centres”, a “facility” less than the area of the International Financial Centre mall (900,000 sq ft). The expectation that WKCD becoming a visitor attraction or “destination” would be completely defeated: no way being a destination mall in face of the gargantuan neighbouring Elements, no one would go the extra mile to visit the WKCD little mall; nor can the cultural part of WKCD satisfy the cultural needs of the citizens and artists, given its diminutive scale akin to a civic centre or community hall, tiny against its London, New York City, Singapore, Taipei and Shanghai counterparts.

The underlying thought of the WKCD Authority is a worry of insufficient local demand of art and cultural activities, that face would be lost if there are not enough attendees to fill up the colossal space when the entire WKCD is opened. That if the Authority’s worry is ill-founded we can infer from a recent interview of Michael Lynch (published in C3, Hong Kong Economic Journal, 10th October, 2011), who arrived Hong Kong to take the post of Chief Executive Officer of the WKCD Authority 10 weeks ago, “there are two things (in Hong Kong) I find surprising: first, despite being labelled as a cultural desert, there are actually a large amount of art and cultural activities in astonishing diversity going on every day in Hong Kong; second, there are sizable recent inflows of experienced international and returnee talents to Hong Kong participating in the art and cultural development (...)”
From above it appears that the WKCD Authority is more of a calamity howler, when acting on its worry even putting the cart before the horse. The reality is that art and cultural activities in Hong Kong grow with the size of their attendees. It suffices just to give a few examples: attendance of the Hong Kong Art Festival was well over 90% in past few years; contemporary art festivals and the artwork they exhibit (a significant portion is local), especially visual art like film, painting and photographing, have been enjoying international critical acclaim for decades. That is why the worry of the WKCD Authority is unfounded. As early as 2000, the then Provisional Urban Council passed a motion to build an 8000 sqm plus contemporary art museum; thanks solely to the then rosy vision of WKCD that the planned museum was incorporate in the WKCD master plan. Now that 11 uneventful years has passed, Beijing already has its 798 art district and Taipei its five contemporary art museums, whereas Hong Kong has yet a single brick placed on the intended site of the planned museum. Now local photographers, many of whom enjoy international renown, have to fly to Taipei (or even farther) for their exhibitions just because there are no exhibition places of comparable quality for them.

If we are going to tread the path as the WKCD Authority drew, the 9%-opened “cultural district” is likely to be halfway between a man and a beast, a mere laughing stock for both the local and international scene. What if the government announces in 2015 that we are going to develop the remaining 91% – what would you think? No matter how ingenious the planning of the first phase is, a fragmented conception of WKCD can never blossom into the splendor originally intended; everyone can foresee the disappointment across all level of the society. At that time even the government blessed with silver tongue cannot resurrect the half-dead WKCD plan; amid disappointment public qualms would naturally rise to such height that no more rosy vision of the remaining 91% can persuade the public to continue the plan till its conclusion, “to develop a detailed Development Plan that will lay out Hong Kong’s future arts and cultural hub.”
The problem of the present situation of the WKCD plan shall be apparent when we dig slightly deeper. The dictum “small is beautiful” simply does not apply to infrastructure and Hong Kong should have already learned its lesson from before. When the Walt Disney Company decided to land on Hong Kong, we anticipated Disneyland to be extremely profitable from surging tourist visits but it is currently still running a deficit due to chronically insufficient attendance; the site is way too small for large-scale facilities, which are the main attraction of theme parks. The “9% WKCD” is just another Hong Kong Disneyland. Its fragmented nature does not allow a full flowering of the original conception; hence public judgment would likely be widely out of the mark, underestimating the social contribution of WKCD, as the public can only see the tip of the iceberg.

Common sense dictates that we are not going to read the names from a foreign domestic maid guidebook and decide on the spot to employ one of them to our home, nor marry a person just by first impression of his/her appearance; we wonder why the government can devise such a nonsensical scheme of opening 9% of WKCD in the first phase and leaving the remaining 91% at the mercy of foreseeable off-the-mark public opinion? — remember that the construction funding of WKCD is taxpayers’ money, a considerable sum of HK$21.6bn.
If things happen along this way, the stagnant situation we described above will likely come true, posing great obstacle to the future of WKCD or even causing its stillbirth; we believe no one wants the initially hopeful comedy turning tragic just before the dénouement. We have to bear in mind that, no matter how weak the heartbeat of WKCD now is, what are bygones are bygones, and we do not have the luxury to cry over the spilled milk. Given that our “Golden 50s” have plenty of resources and time and demand for art and cultural activities, as well as a super-abundant government fiscal surplus of HK$100bn (far higher than last year’s HK$75.1bn), it is an imperative for the government, instead of distributing the surplus in form of HK$6,000 per citizen, to allocate the needed additional funding to the WKCD project and commence construction in full speed such that one-third of the site would be opened by 2018 – this is at least a satisfactory first draft of the “cultural district”.

Additional funding is required to support the opening of one-third of the WKCD site by 2018
If we do not grab this opportunity, the possibility of WKCD commencing construction eventually would be getting slimmer and slimmer. Michael Lynch notified the government and legislators a month ago that the one-off HK$21.6bn allocated from the Legislative Council is no longer sufficient to accomplish the whole plan in view of the continuously mounting construction cost currently. Calculated in this year’s price, the government needs to allocate around HK$4bn additional funding to keep the heart of WKCD beating. As we all know, the economic centre of gravity has been moving from the West to the East, spurring never-ending infrastructure construction works (especially in China) and, thus, construction costs. Therefore construction cost of WKCD can only be expected to rise year after year – we cannot imagine who will still support WKCD if construction is delayed for a further three or five years; not that people would no longer deem art and culture important, but the costs would then surge to such a point that significantly outweigh possible social benefits.

Now we know that the government is going to own so large a HK$100bn fiscal surplus which the deployment of it will not undermine stability of the linked exchange rate system; so why are board members in the WKCD Authority now in prolonged headache trying to fund the construction of WKCD in whatever means, like issuing bonds, borrowing, or seeking sponsor from individuals or companies (for instance, selling naming rights)? The enormous HK$100bn government fiscal surplus is of a disproportion, even ironic, contrast to the tiny sum of HK$4bn needed to commence WKCD construction immediately – the contrast between the Sun and Pluto. What good does sitting on the astronomical surplus bring Hong Kong if the whole WKCD plan is ultimately abandoned due to a lack of a mere HK$4bn? It is high time the government led the conception and construction of WKCD by itself, spending, like the mainland Rmb4trn plan during the last financial crisis, to keep the economy going and thriving.
Demographics has always been one of the key factors driving changes in consumption behaviour, thus bearing great implication for the direction of economic development; for instance, mini home appliances like single-person rice cooker are born to satisfy the demand of dwindling household size due to delaying marriages and declining birth rate. Few would ever imagine that the aging baby boomer population would bring a golden opportunity for Hong Kong developing its art and culture. If the government can assume a more proactive role in WKCD, coupling with the existing momentum of eastward economic movement – manifesting patently nowadays in the massive influx of international brands and multinational corporations to Hong Kong, establishing headquarters and applying to be listed in the Hong Kong Stock Exchange, Hong Kong has a fair chance to attain the status of “real” World City (financial-cum-cultural centre) in near future.

Your “Can-do” Spirit and Support

While we have listed recommendations to tackle the obstacles from different angles, none of them would turn into reality if a crucial ingredient is missing – the “can-do” attitude and determination that have characterized Hong Kong people for the past century. This mindset has been the driving force of Hong Kong’s evolution from a small fishing village into a bustling metropolis in the blink of an eye (in historical terms), empowering its citizens to conquer challenge after challenge. Here is yet another challenge. Since the Handover, Hong Kong seems to have been disoriented by political turmoil and failed to match its priorities with the most urgent needs of the society. In these Golden 5 Years when Hong Kong is facing unprecedented opportunities and challenges, Hong Kong must put its focus back in the long-term development of the city and work towards the goal of a prosperous, influential World City with unity and perseverance.

The key to a bright future for Hong Kong lies in the hands of every Hong Kong citizen.
5: Summary of HKGolden50’s Survey of Mainland Graduates from the University of Hong Kong

The objective of the survey is to assess how mainland students studying in Hong Kong view their experience and whether or not Hong Kong can retain these talents. The survey was conducted from 14 to 25 July 2011 by means of an online questionnaire sent to 269 HKU graduates of the Class of 2010 (i.e. mostly one year out of university at time of answering) of which 80 valid replies were received and also 30 graduates that volunteered to respond from other years. Follow-up interviews were conducted by phone to clarify replies to some questions.
When asked to evaluate their experience in Hong Kong, 65% found their time here “rewarding personally” and 63% “rewarding professionally”. In contrast, “rewarding socially” drew less than half the response (43%). Our follow-up interviews show that, “cultural shock” and language barrier limit the social life of mainlanders to some extent, even though Hong Kong is still believed to be a desirable place for them to develop personally and professionally. Consequently, 42% considered their time here “enjoyable” but only 4% thought it was “very enjoyable”. It is natural for many of the students who are studying abroad for the first time in their lives to encounter adjustment problems, and similar, if not worse, feedbacks can be expected if we conduct the same interview with mainland students at other popular education destinations. It is reassuring that only 4% did not enjoy their time in Hong Kong.
The survey group was made up of predominantly graduates with work experience of one year or less i.e. average stay of around four years in Hong Kong. Hence, another three years of stay in Hong Kong would enable the respondents to become Permanent Residents and this factor explains why 42% of the respondents want to stay in Hong Kong for a further 1 to 4 years. Impressively, a further 42% expressed their wish to stay beyond five years i.e. they did not indicate their option to return to China after gaining their right of abode in Hong Kong. These findings strongly indicate that Hong Kong has the potential to retain the majority of these talents but the government has to step up efforts in keeping them in the city after graduation.

For the 17% who wanted to leave Hong Kong immediately, surprisingly, most indicated practical factors such as “high cost of living”, “stressful lifestyle” and “culture” as their reasons.
Encouragingly, the majority of the graduates (88%) believed their education at HKU had given them an advantage over mainland degrees. However, only 27% rated the advantage as being significant because many students felt that they had given up the chance to network in a campus environment in the mainland which is important for job search. This lack of networking can be mitigated by significantly enlarging the community of mainland students in Hong Kong. Reassuringly, only 1 respondent felt he was disadvantaged by studying in Hong Kong.

To what extent has education at HKU offered you advantage over mainland degrees?

- 61% Yes, studying in HKU has given me a significant edge over mainland degrees
- 27% Yes, studying in HKU has given me some advantage over mainland degrees
- 11% No, I am not disadvantaged by my education at HKU
- 1% Not much advantage has been gained

Source: HKGolden50
As Hong Kong is a service economy and finance is a core industry, it is not surprising that more than half of the respondents studied finance subjects and found work in the same sector. Importantly, the stream of graduates in finance with first-hand mainland experience must have contributed significantly to the development of Hong Kong’s financial products in recent years, including listing of mainland companies in Hong Kong and the development of Rmb-related projects. It is also interesting to note that 27% of respondents have chosen to pursue a higher degree, which is more than double the local average.
The majority (70%) of respondents believed their mainland Chinese background (cultural, language, connections etc.) was important to their current job. Only 25% felt that their mainland background made no difference to their recruitment. This suggests that the positions they occupy are quite technical in nature and their job types are open to global and local applicants alike. Very importantly, 86% of the respondents said their work involves dealing with China. On the negative side, 5% believed their mainland background had hindered their career. Follow up interview with those respondents reveal that job nature was main cause for the dissatisfaction; for example, a job that mainly caters for the local market – causing some level of cultural discomfort, or a job in a non-core and slow growth industry of Hong Kong such as engineering.
When asked whether the respondents would recommend their best friends or young relatives to study in Hong Kong, 73% said yes and 27% said no. While this should be a positive finding, the level of approval does fall short of the levels suggested by the other answers. Our follow up interviews show that while the respondents represent some of the best students from the mainland, they hesitate to regard their relatives or close friends as being as driven or as sophisticated as they are. Due to the “high tuition fee” the respondents perceived they were paying, they believe their close friends and relatives might not be able to derive as much benefit from this investment as they do. It looks likely that, prospective students from the mainland are increasingly assessing tertiary education in Hong Kong against other options overseas; to which value for money is an important consideration.

On the whole, the findings of the survey are encouraging. It shows that the majority of the mainland students in Hong Kong have plans to settle in the city for the long term, and they are indeed invaluable to the economy as they can help alleviate the imminent labour shortage, and also enable Hong Kong to become a prime service centre for China by taking up jobs with requirements for mainland experiences that the locals lack. The survey has reinforced our belief that a policy to attract and retain mainland talents is a critical component in Hong Kong’s quest to become a World City.
6: More Users will Tap Hong Kong IFC’s “Deepcraft”

As we discussed in Section 2, a number of structural factors are leading to a trend of a growing stream of users tapping the Hong Kong finance industry platform. This trend will enhance Hong Kong IFC’s capacity and capabilities in (1) Equities, (2) Fixed Income, (3) Rmb Products, (4) Private Banking, and (5) Asset Management. If there are any further adverse changes to regulatory or taxation in some western jurisdictions, there may be some diversion of flows from these markets to the Hong Kong platform.

(1) Equities

Hong Kong has become the undisputed King of IPOs in recent years. In the last five years, the amounts of capital raised in IPOs have topped global league tables four times, exceeding London every year except 2008. However, there is a unique advantage of the London Stock Exchange (LSE) that the HKSE has struggled for years to keep up with: the geographic diversity of the companies listed. For example, LSE currently has over 200 companies from Asia Pacific, 100 from the CIS region, 65 from India, 50 from Africa and 35 from the Middle East. A large portion of these are secondary listings.

Hong Kong topped global IPO league tables 4 times in past 5 years
Hong Kong is now the World’s Premier Destination for IPOs

On the other hand, HKSE only has 25 countries from overseas jurisdictions apart from China. This kind of diverse market catchment is a hallmark of an IFC where corporations from all over the world tap the exchange’s wide investor base for the supply of capital.

London serves many more companies from overseas than Hong Kong

Hong Kong still has a long way to catch up in this aspect – but the process has started and gathering momentum
With the growing international recognition of Hong Kong’s ability to raise sizeable sums of capital and solid reputation as a premier jurisdiction for listing, Hong Kong is rapidly gathering a string of large and famous corporations to do their primary listing, including RUSAL from Russia, Prada from Italy, L’Occitane from France and Samsonite from Belgium/US these 2 years. With global economic focus shifting eastward, more and more companies wanting to capture Asian growth potential will enter capital markets in Asia to increase exposure to the region. With Chinese markets still largely closed to foreigners and the Singaporean market still amounting to less than a quarter of the city’s market capitalisation, Hong Kong is the natural destination for IPOs.

Despite the volatile capital market condition this year, there is still a healthy collection of famous foreign companies in the pipeline for IPO in Hong Kong, including Graff Diamonds of London, Rovio, the Finnish software developer, Baroque, the Japanese retailer and Bluestar Adisseo, the French-originated animal nutrition feed producer. This trend will continue to contribute to increasing internationalization and diversity of Hong Kong’s capital markets.

(2) Fixed Income

The bond and commodity markets in Hong Kong are severely underdeveloped. Compared to London and other major Asian centres, Hong Kong’s bond and commodities market capitalization is tiny – merely 1% of that of London’s. Singapore, Shanghai and even Taiwan and Thailand have larger bond markets than Hong Kong.

With Chinese markets still amounting to less than a quarter of Hong Kong’s market capitalization, Hong Kong is the natural destination for IPOs.

Hong Kong’s bond and commodities market is 1% that of London’s.
This shortcoming is partly because many Hong Kong corporations operate on a lower leverage than Western corporations and tend to sit on abundant cash, thus having little need to raise long term capital from debt issuance. For historical reasons, major/sizable commodities producers and consumers are located in the western world. The absence of large and liquid bond and commodities markets is limiting the variety of fixed income or commodities investment options that wealth management professionals can offer clients.

(3) Rmb Products

Fortunately, an influx of opportunities can make what Hong Kong cannot do on its own happen, i.e. developing an active bond market. Since 2007, mainland and foreign companies have started to issue offshore Rmb bonds nicknamed “dim sum bonds” in Hong Kong, and these issuances skyrocketed since 2010 as the People’s Bank of China allow for more Rmb foreign direct investment. So far, MNCs such as McDonald’s, Caterpillar, Yum!, Unilever; Chinese corporations such as SinoChem, COFCO, China Merchants Holding; and supranational institutions such as Asia Development Bank and International Finance Corporation of the World Bank Group have raised capital from the offshore Rmb (CNH) market.
The offshore Rmb bond market is predicted to grow in a J-curve fashion during these Golden 5 Years, and if trends continue, total capitalization can rise to a level comparable to Singapore and Shanghai. The issuance of the Rmb20bn Chinese government treasury bond (China Development Bank) has further broadened the width of the market. Also, the new measures announced by Vice Premier Li Keqiang in August, establishing a formal procedure for offshore Rmb funds to be repatriated back to mainland China and allowing PRC companies to issue Rmb bonds in Hong Kong, help to establish an ecosystem for a virtuous cycle of currency circulation. While Hong Kong still may not stand out as an international fixed income centre in the near future, its unique status as the offshore Rmb bond hub offers international investors the main way to gain exposure to Chinese fixed income securities, ensuring Hong Kong’s important role in the international bond scene.

Various industry experts have forecast the development of offshore Rmb products will create tens of thousands of jobs. To build on this trend, HKEx is advised to establish a public exchange platform for bonds, which enhances price discovery and transparency, as well as provide guaranteed trade settlement.

The range of offshore Rmb products will grow and grow and should create tens of thousands of new jobs for Hong Kong IFC. The city needs to step up its production of top grade offices in order to physically accommodate this new opportunity.
With the proximity to many Asian commodity production centers and major consumption markets, Hong Kong is taking the first steps towards creating a viable Asian price discovery and benchmarking system with the establishment of the Hong Kong Mercantile Exchange in May. HKMEx provides standardised, cleared, and exchange-traded products on a transparent pricing platform to the Asia Pacific time zone.

The Exchange currently offers USD denominated gold and silver futures contracts and plans to launch yuan-priced gold and silver futures to capitalise on growing investor demand for China’s strengthening currency, with further ambition for products in base metals, energy and agriculture. Compared to cash settlement precious metal contracts offered by Singapore, HKMEx’s precious metal contracts are viewed as more advantageous given its physical settlement capabilities under the cooperation with Hong Kong International Airport’s Precious Metals Depository as a licensed storage venue. Despite this, the plan to roll out USD denominated fuel oil contracts has been delayed due to complications related to physical delivery in China.

Compared to cash settlement precious metal contracts offered by Singapore, HKMEx’s ones are more advantageous given its physical settlement capabilities under the cooperation with Hong Kong International Airport’s Precious Metals Depository as a licensed storage venue.
(4) Private Banking

Hong Kong is well-poised to become the major private banking / wealth management centre for a booming new population of Asian millionaires. Wealth creation is increasingly focused in Asia Pacific, with the population of high net worth individuals with net assets > US$1m (HNWIs) in Asia Pacific overtaking that in Europe for the first time in 2010, and growing in a much quicker rate of 12.1% compared to the West (Europe’s rate is 7.2% and North America 9.1%), according to Merrill Lynch Cap Gemini, the consultants. Asian HNWIs now amount to 3.3 m, 16% (535,000) of whom are from China, and is only second to North America which has 3.4 m HNWIs. With the Asian economy continuing to register strong growth and the West slowed by a string of fiscal and economic problems, we expect the Asia Pacific HNWI population to overtake that of North America within these two years and likely to extend its lead in the coming decade. Private bank Julius Baer forecasts the wealth of HNWIs in Asia to triple to almost $15.81 trillion by 2015.

The young age of the average Asian HNWIs (41% of Asian HNWIs are below the age of 45, the highest portion worldwide) also guarantees long term demand of wealth management services. Furthermore, their youth allows for a higher risk, higher return range of products and advice. Hong Kong, situated in the high-growth part of Asia, and a sub-region full of entrepreneurs, should provide fertile “home ground” for the wealth managers, investment banks and corporate financiers to work with the same clients and providing a service mix (including custom-made structured products) that is not typical for most parts of the world and add to the “deepcraft” of the IFC.
On the other hand, increased regulatory pressures in Switzerland and London mean that more and more wealth managers and HNWIs from the West may consider relocating their wealth functions to Asian centres. Hong Kong and Singapore are expected to compete for this potential new source of business.

To reinforce Hong Kong’s image as a world class IFC and to give HNWI the extra confidence that the professional service and legal protection accorded to them by Hong Kong private banking is at least as good and comprehensive as other jurisdictions’, the city must make this point clear, if only as a marketing point. Singapore passed a 29-page Private Banking Code of Conduct in April 2011 (came into effect 1st September) which sets out the standards of behaviour required of practitioners and legal remedies for any breach of conduct. It is important that Hong Kong takes similar steps to codify best practice and set up an examination or similar means of ensuring quality of wealth advisers.

*Hong Kong urgently needs a Code of Conduct for Private Bankers – this will assure potential clients of the service quality of the industry and the legal recourse*
(5) Asset Management

According to the 2010 Market Highlights issued by the World Federation of Exchanges (WFE): The total investment flows (comprising capital raised for IPOs and secondary equity issuance) around the world have shown an overall growth of 11.2% to US$1,012bn. According to the statistics, the investment flows into Asia Pacific grew by 21.3% year-on-year in 2010 to US$436bn. This compares with a 17% increase in investment flows into the Americas and a 9.5% decline in investment flows into the Europe-Africa-Middle East areas.

With respect to Rmb products, Hong Kong achieved a new milestone with the IPO and listing of the world’s first Rmb-denominated REIT in Asia 2011. The REIT is the first Rmb-denominated equity product listed and traded outside the mainland and the distributions will also be declared and paid in Rmb.

The combined fund management business of Hong Kong sustained its growth in 2010, with a year-on-year increase of 18.6% to HK$10.091bn as at the end of the year.
By types of business activity: Asset management business recorded a year-on-year 17.5% increase in total assets under management to HK$6,841bn in 2010. Other private banking business grew 32.1% to HK$2,230bn. Fund advisory business rose 0.4% to HK$917bn.

Hong Kong continued to be a preferred location for international investments. Of the total HK$9,988bn in non-REIT fund management business, 66% was sourced from non-Hong Kong investors.

Hong Kong continued to maintain its position as an international asset management centre attracting international investors to select Hong Kong as an investment platform. This is attributable to Hong Kong’s transparent regulatory regime, which strikes a balance between investor protection and market innovation, underpinned by a robust market infrastructure and a highly efficient financial market.
In 2010, the asset management business in Hong Kong continued to experience growth. Hong Kong’s free economy, robust regulatory framework, local expertise, proximity to the mainland and the presence of a diverse population of asset management expertise together contributed to the sustainable appeal of Hong Kong as a leading asset management centre in Asia.

Of the total non-REIT assets under management (AUM) of HK$6,841bn, 60.8% or HK$4,161bn was managed in Hong Kong.

Hong Kong’s pre-eminent position as an international financial centre gained clear policy support from the mainland. For the first time, explicit support for the development of Hong Kong into an offshore Rmb centre and an international asset management centre was clearly set out in the mainland’s 12th Five-year Plan.

The amount of mainland assets managed in Hong Kong registered a year-on-year increase of 2.6% to about HK$77bn in 2010. More than 50% of these mainland assets were invested in Hong Kong, around 25% were invested in the Asia-Pacific region, and the remaining portion was invested in North America, Europe and other regions.

The inflow of mainland asset managers have only just started and should increase in both numbers and assets-under-management soon.
Not only is Hong Kong recognised as the testing ground to promote globalisation of renminbi, it is also a gateway and a bridge connecting the mainland economy to the world’s financial markets. The number of mainland-related financial institutions establishing operations in Hong Kong is increasing. As at the end of April 2011, around 51 mainland-related groups established a total of 152 licensed corporations or registered institutions in Hong Kong, broken down as follows:

- 14 mainland securities companies have established 56 licensed corporations.
- 6 mainland futures companies have established six licensed corporations.
- 9 mainland fund management companies have established nine licensed corporations.
- 6 mainland insurance companies have established seven licensed corporations.
- Other types of mainland companies, totalling 16, have established 60 licensed corporations and 14 registered institutions.

### Top 8 Chinese Fund Management Companies and their Arrival Date in Hong Kong

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Total AUM (Rmb bn)*</th>
<th>Arrival Date in Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Asset Management</td>
<td>222</td>
<td>Dec 2008</td>
</tr>
<tr>
<td>E Fund Management</td>
<td>153</td>
<td>Jan 2009</td>
</tr>
<tr>
<td>Harvest Fund Management</td>
<td>144</td>
<td>Feb 2009</td>
</tr>
<tr>
<td>China Southern Fund Management</td>
<td>122</td>
<td>Sept 2008</td>
</tr>
<tr>
<td>Bosera Asset Management</td>
<td>111</td>
<td>Nov 2010</td>
</tr>
<tr>
<td>GF Fund Management</td>
<td>102</td>
<td>Sept 2011</td>
</tr>
<tr>
<td>Dacheng Fund Management</td>
<td>89</td>
<td>Oct 2009</td>
</tr>
<tr>
<td>HuaAn Fund Management</td>
<td>76</td>
<td>Dec 2010</td>
</tr>
</tbody>
</table>

*As at 2011 1st Half
Source: HSBC, ChinaFunds.cn

*All of the 8 largest Chinese fund management firms have already set up operations in Hong Kong, following keenly by smaller firms*
Other Chinese Fund Management Firms Setting Up in HK or Having Plans to Do So

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ranking of Scale in China</th>
<th>Arrival Date in Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yinhua Fund Management</td>
<td>9th</td>
<td>Pending</td>
</tr>
<tr>
<td>ICBC Credit Suisse Asset Management</td>
<td>11th</td>
<td>Pending</td>
</tr>
<tr>
<td>China Universal Asset Management</td>
<td>12th</td>
<td>Feb 2010</td>
</tr>
<tr>
<td>China International Fund Management</td>
<td>13th</td>
<td>Jul 2011</td>
</tr>
<tr>
<td>Lion Fund Management</td>
<td>14th</td>
<td>Pending</td>
</tr>
<tr>
<td>Guotai Junan Securities</td>
<td>20th</td>
<td>May 2008</td>
</tr>
<tr>
<td>HFT Investment Management</td>
<td>23rd</td>
<td>Oct 2010</td>
</tr>
<tr>
<td>UBS SDIC Fund Management</td>
<td>25th</td>
<td>Oct 2011</td>
</tr>
</tbody>
</table>

*As in 2011 1st Half
Source: HKSCC, Chinafund.cn, Various Hong Kong and Chinese News Sources

Majority of the assets managed in Hong Kong was invested in Asia, accounting for 79.7% in 2010

Assets Managed in Hong Kong By Geographical Distribution of Investments

Source: SFC Fund Management Activities Survey 2010
However, Hong Kong needs to quickly capitalize on these strengths in order to fight against regional competition, particularly from Singapore, which is already way ahead and is keen to reinforce its position as ‘Switzerland of Asia’. Singapore has long branded itself as the ‘safe haven’ for money with its independent political status, and has even successfully attracted a number of leading private banks to set up regional bases there. The city-state is also investing heavily in grooming private banks such as funding the Singapore Management University, Master of Science course in Private Banking and setting up the Singapore Wealth Management Institute, which partners with major banks and asset managers. Hong Kong should also provide private banking education training in post-secondary institutions.
Hong Kong’s asset management industry is currently still dwarfed in scale and scope by that of London. Assets under management (AUM) of the fund management industry of Hong Kong is just a little more than one fifth of London’s and Hong Kong has less than half as many asset management professionals as London. The sheer difference in scale of the industry in the two cities can be illustrated by the gap in the number of hedge funds with AUM over US$1bn at 63 vs 11. Hong Kong needs to take advantage of the rapidly growing market to catch up and fend off challenges from Singapore, whose government is actively encouraging the development of the wealth management industry.

![Number of Asset Management Specialists, 2010](image)

**London’s Financial Sector under Pressure**

Although these comparisons reveal that Hong Kong’s financial markets still has a long way to catch up with London’s in terms of depth and breadth, a series of recent developments underscore our optimism that Hong Kong is adding momentum as an IFC.

We will not go into the details on the problems that befall financial institutions in London but will set out key features below:
(1) Increasingly difficult tax and regulatory environment

**High personal tax**

London has never been a low-tax destination; the top-band income tax in London has always been 50% for those earning more than 150,000 pounds annually (which is not-at-all uncommon for many investment bankers), which is steep high compared to the 15% maximum standard tax rate in Hong Kong.

**Potential financial transaction tax**

In late September 2011, the European Commission proposed to levy a 0.1% tax on all equity and bond trade, and 0.01% on all derivative trades, starting from January 2014. Sensitivity studies by the European Commission shows that the tax can potentially result in a 1.76% drop in GDP in those countries that adopt the levy, but expect the impact to be cushioned as the expected annual revenue of 57bn euros will be divided among EU member states’ to fund their budget deficits.

Although the EU hopes that the tax will be eventually applied to all global trades, Canada, US, Australia and China have already indicated their opposition as the tax would put more pressure on banks. The City of London, which handles up to 80% of all financial transactions in the E.U., of course follows suit in objecting the tax but it is unclear at this point whether the UK will veto this law.

The chief executive of HSBC, when asked about the impact of the Vickers reforms on the banks, said plans to force lenders to hold more capital could trigger a net cost of up to US$2.1bn (£1.3bn) a year for HSBC, which obtains most of its revenue overseas. “That is a very explicit cost of being headquartered in the UK,” he said.
(2) Increasing concentration of leading corporations in the “East”

It might have been true that London was the “natural place to go” for leading financial corporations ten years ago but this is starting to change with corporations’ increasing focus on Asia’s fast-growing markets.

For instance, ten years ago, none of the top ten financial institutions on the Financial Times Global 500 list were located outside of the US or Europe. However, as of 2010, four of the world’s top ten financial institutions by market capitalization were in Asia.

**Top 10 Financial Firms in FT Global 500 (Chinese Firms Highlighted in Red)**

<table>
<thead>
<tr>
<th>Ranking</th>
<th>2001</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>Citigroup</td>
<td>Industrial &amp; Commercial Bank of China</td>
</tr>
<tr>
<td>2nd</td>
<td>AIG</td>
<td>Berkshire Hathaway</td>
</tr>
<tr>
<td>3rd</td>
<td>HSBC</td>
<td>China Construction Bank</td>
</tr>
<tr>
<td>4th</td>
<td>Berkshire Hathaway</td>
<td>HSBC</td>
</tr>
<tr>
<td>5th</td>
<td>JPMorgan Chase</td>
<td>Wells Fargo</td>
</tr>
<tr>
<td>6th</td>
<td>Morgan Stanley Dean Witter</td>
<td>Agricultural Bank of China</td>
</tr>
<tr>
<td>7th</td>
<td>Wells Fargo</td>
<td>JPMorgan Chase</td>
</tr>
<tr>
<td>8th</td>
<td>Allianz</td>
<td>Bank of China</td>
</tr>
<tr>
<td>9th</td>
<td>Bank of America</td>
<td>Citigroup</td>
</tr>
<tr>
<td>10th</td>
<td>Fannie Mae</td>
<td>Banco Santander</td>
</tr>
</tbody>
</table>

Source: Financial Times

Many leading financial institutions with an increasing revenue pool from Asia have chosen to base the bulk of their functions in Asia or list their shares in Asia. For example, HSBC’s chief executive office was relocated to Hong Kong in 2009, while Standard Chartered already has most of its operations based in Singapore. The insurance giant, AIA was successfully spun off from AIG group in 2010 and is listed and headquartered in Hong Kong. Prudential Insurance is now dual-listed in London and Hong Kong and BNP Paribas is rumoured to be seeking a listing in Hong Kong soon.

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In the immediate 5 years, Hong Kong will enjoy some of the strongest inflows of business opportunities and talents in our history. If Hong Kong people think through the issues calmly and sensibly, we can capture these and enhance the long-term growth and quality of our economy, thereby supporting jobs and fostering social harmony for the next generation. If we choose to do nothing and allow these opportunities to disappear, we may well regret the decline that may follow the Golden 5 Years.

Our younger generation, in particular, should be more proactive in changing to a pro-growth mindset in the Golden 5 Years as what they choose will likely define their next 50 years.

HKGolden50 is an optimist – we believe Hong Kong’s golden years will run far into the future because Hong Kong people will choose wisely. Our mission is to encourage awareness, discussion, research and ownership of these immediate issues in society in the hope that Hong Kong can move forward boldly again.