

## Hong Kong As A Leading Financial Centre in Asia

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### Summary

1. *According to a study conducted for the Corporation of London (“The Study”), 14 competitive factors have been identified as important for financial centres. The objective of this paper is to examine how Hong Kong performs in these factors and, on that basis, assess its competitiveness as a financial centre in Asia.*
2. *The 14 factors are categorized and examined in the following six groups:*
  - *availability of skilled personnel and access to suppliers of professional services;*
  - *regulatory environment and government responsiveness;*
  - *access to international financial markets and access to customers;*
  - *availability of business infrastructure and a fair & just business environment;*
  - *corporate and personal tax regime; and*
  - *other factors such as operational costs and quality of life.*
3. *Hong Kong is clearly ahead of other Asian markets in most factors, based on various authoritative studies. Hong Kong has a critical mass of expertise in the financial services and related professional sectors. Its regulatory framework is sound and of international standards, and it also has a responsive government. As the freest economy in the world, it has ready access to international financial markets and customers. The business infrastructure is advanced and sophisticated, and the business environment open and competitive. In addition, tax rates in Hong Kong are very low and the tax system is simple and efficient.*
4. *It is worth noting that the 14 competitive factors are in fact inter-related, with one reinforcing the other. For instance, while a skilled workforce is critical to a financial centre, a well-established financial centre will in turn attract more skilled talents and the virtuous circle continues. Moreover, these factors ensure that market forces work well such that businesses operate efficiently and respond swiftly to changes in the market.*
5. *Nevertheless, there is no room for complacency. For instance, The Study also examined the scope for a third global financial centre (apart from New York and London) and the views were split. This shows that Hong Kong is facing competition from other financial centres. Therefore, Hong Kong should continue to further strengthen its competitive advantages and to improve other areas such as enhancing competition, ensuring ease of doing business, improving quality of life, and addressing environmental issues in order to stay ahead in the competition.*

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<sup>1</sup> The paper is for research purposes. The views expressed in this research paper do not necessarily reflect those of the Commission.

## Hong Kong As A Leading Financial Centre in Asia

### Background

6. According to a study conducted for the Corporation of London<sup>2</sup> (“*The Study*”) in November 2005, the 14 most important competitive factors for financial centres are listed below in descending order (Appendix 1 shows the details):
  - (i) availability of skilled personnel;
  - (ii) regulatory environment;
  - (iii) access to international financial markets;
  - (iv) availability of business infrastructure;
  - (v) access to customers;
  - (vi) a fair & just business environment;
  - (vii) government responsiveness;
  - (viii) corporate tax regime;
  - (ix) operational costs;
  - (x) access to suppliers of professional services;
  - (xi) quality of life;
  - (xii) cultural & language;
  - (xiii) quality & availability of commercial property; and
  - (xiv) personal tax regime.
  
7. *The Study* examined the performance of four financial centres, namely London, New York, Frankfurt and Paris, in the 14 competitive factors. *The Study* concluded that New York and London are the only two genuinely global financial centres. It is worth noting that *The Study* also examined the scope for a third global financial centre, but the views were spilt. Yet, most respondents agreed that if there were one, it would be most likely in China and probably Shanghai.
  
8. *The Study* also concluded that the underlying strengths of the financial centres lie in the availability of skilled people, the regulatory environment and market liquidity. It quoted the Head of Trading of a London-based investment bank as saying that “*Financial centres are where market liquidity is and market liquidity is very hard to move ... It will take a number of significant factors, acting over a number of years to alter the status quo now that have been established.*”

### Objective, Scope, Methodology and Limitations

9. The objective of this paper is to assess how Hong Kong performs in the 14 competitive factors. This helps indicate the comparative strengths of Hong Kong and areas where Hong Kong should improve. The 14 competitive factors are re-classified into six categories, namely,

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<sup>2</sup> The Corporation of London, *The Competitive Position of London as a Global Financial Centre*.

- availability of skilled personnel and access to suppliers of professional services;
  - regulatory environment and government responsiveness;
  - access to international financial markets and access to customers;
  - availability of business infrastructure and a fair & just business environment;
  - corporate and personal tax regime; and
  - other factors such as operational costs and quality of life.
10. Twelve other economies in Asia are selected for comparison in this paper. These include Australia, Mainland China, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan and Thailand. The comparison is primarily based on the scores for these economies on various items in the International Institute for Management Development's (IMD's) *World Competitiveness Yearbook*<sup>3</sup> and the World Economic Forum's (WEF's) *Global Competitiveness Report*<sup>4</sup>. Where appropriate, other studies are also used to compare the performance of the 13 selected economies in certain competitive factors. These studies include the Heritage Foundation's *Index of Economic Freedom*<sup>5</sup>, the Fraser Institute's *Economic Freedom of the World*<sup>6</sup> and the World Bank's *Doing Business in 2006*<sup>7</sup>.
11. Items closely related to the 14 competitive factors have been identified from the studies of IMD and WEF, and the performance of the 13 selected markets in these items is ranked. An overall ranking of a market has been calculated, based on the simple average of the ranking in items for each competitive factor. The assessments for 2006 and 2004<sup>8</sup> are also compared to track the performance over time.
12. As different methodologies are used in the IMD and WEF studies, the comparisons made in this paper are subject to limitations. Certain items from the IMD and WEF studies may refer broadly to the whole economy rather than specifically to the financial sector. Moreover, comparisons are based on jurisdiction basis. This is in contrast to *The Study* where the comparison was made on a city basis. Comparisons made in this paper are also subject to such limitations.

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<sup>3</sup> IMD conducts an annual survey to assess the competitiveness of some 60 major economies. The results are published in the *World Competitiveness Yearbook*. The competitiveness of an economy is assessed in four broad competitiveness factors; each of which can be broken down into five sub-factors. These sub-factors can be further broken down into 312 items. Appendix 2 shows the details.

<sup>4</sup> WEF conducts an annual survey to assess the competitiveness of 117 economies. The results are published in the *Global Competitiveness Report*. The competitiveness of an economy is assessed in nine broad factors, which can be broken down into 142 items. Appendix 3 shows the details.

<sup>5</sup> The Heritage Foundation conducts an annual study and compiles the *Index of Economic Freedom* in order to assess the economic freedom of 161 economies.

<sup>6</sup> The Fraser Institute conducts an annual study entitled *Economic Freedom of the World*, which assesses the economic freedom of 127 economies.

<sup>7</sup> The World Bank conducts an annual study which assesses the ease of doing business in 155 economies.

<sup>8</sup> The WEF's assessments were based on the periods 2005/2006 and 2003/2004.

## Availability of Skilled Personnel and Access to Suppliers of Professional Services

13. Hong Kong has developed a critical mass of expertise in the financial services and related professional sectors<sup>9</sup>. For instance, the number of Chartered Financial Analysts (CFAs) has increased from about 200 in 1995 to more than 3,000 at present. Indeed, Hong Kong has the 4<sup>th</sup> largest number of CFAs in the world after the US, Canada and the UK and the largest number of CFAs in Asia. Hong Kong is also ranked 1<sup>st</sup> in Asia in terms of the ratio of Certified Financial Planners to the population. The number of Certified Public Accountants has grown from about 11,500 in 1995 to more than 25,000 currently, whilst that of qualified actuaries has almost tripled over the same period. More than 5,000 solicitors and about 1,000 barristers are now practising in Hong Kong, and these have also increased substantially.
14. In the IMD and WEF studies, eight items are closely related to the availability of skilled personnel and access to suppliers of professional services:
- finance skills are readily available (FS);
  - brain drain does not hinder competitiveness (BD);
  - foreign high-skilled people are attracted to the economy (FH);
  - ease of hiring foreign labour (EH) – this item was not included in the study in 2004;
  - international experience of senior managers is significant (IE);
  - competent senior managers are readily available (CS);
  - labour regulations do not hinder business activities (LR); and
  - information technology skills are readily available (IT).

**Rankings of the 13 Selected Economies in Items Related to Availability of Skilled Personnel and Access to Suppliers of Professional Services**

	2006									2004							
	FS	BD	FH	EH	IE	CS	LR	IT	All	FS	BD	FH	IE	CS	LR	IT	All
Australia	4	5	3	12	4	3	7	6	4	1	7	4	8	5	8	4	5
China	9	12	7	6	13	13	4	13	11	9	13	9	13	13	4	12	12
<b>Hong Kong</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>
India	2	3	8	8	8	7	10	1	5	2	2	10	7	1	11	1	3
Indonesia	12	10	12	4	12	12	13	12	13	13	9	8	11	12	13	13	13
Japan	10	4	11	9	11	9	6	5	8	12	4	11	12	11	7	5	9
Korea	13	9	9	10	9	11	12	4	11	11	10	11	3	9	12	9	11
Malaysia	5	7	4	3	3	5	3	9	3	6	6	3	4	4	3	10	4
New Zealand	8	11	6	7	10	10	9	10	9	8	12	6	10	10	10	6	9
Philippines	6	13	13	13	6	4	11	8	10	5	11	13	9	2	9	8	8
Singapore	3	2	2	1	2	2	2	3	2	4	1	1	2	6	1	2	1
Taiwan	7	8	10	5	5	6	8	7	6	7	5	7	5	7	6	7	6
Thailand	11	6	5	11	7	8	5	11	7	10	8	5	6	8	5	11	7

Remark: Rankings are among the 13 selected economies.

“All” refers to the overall ranking of a market in the competitive factor, based on the value of the simple average of the rankings in the selected items.

Sources: IMD, WEF and SFC Research

<sup>9</sup> Data are sourced from various organizations, including the CFA Institute, Hong Kong Institute of Certified Public Accountants, Financial Planning Standards Board, The Law Society of Hong Kong and the Hong Kong Bar Association. Some figures are from a speech given by the Secretary for Financial Services and the Treasury on 10 June 2006 at the Forum of Enhancing Quality with Strengthened Training.

15. In terms of availability of skilled personnel and access to suppliers of professional services, Hong Kong undoubtedly takes the lead among the 13 selected economies. Of the eight items, Hong Kong ranked 1<sup>st</sup> in six items and 2<sup>nd</sup> in two items in 2006. In addition, most rankings improved from 2004.
16. Human resource is the most important asset Hong Kong has. It also determines the long-term competitiveness of an economy. The fact that Hong Kong has an advantage over other Asian economies in this regard means that the critical mass helps strengthen Hong Kong as a leading financial centre in the region. In addition, this advantage is reinforcing itself because whilst a skilled workforce is critical to a financial centre, a well-established financial centre will in turn attract more skilled talents and the virtuous circle continues.

### Regulatory Environment and Government Responsiveness

17. The regulatory framework in Hong Kong is sound and of international standards. On the securities side, the Securities and Futures Ordinance (SFO), which came into effect on 1 April 2003, consolidates and modernises 10 existing ordinances into a composite piece of legislation to keep the regulatory regime on a par with international practices. The SFO provides a more transparent and coherent regulatory regime and aims to strike a balance between protecting investors and promoting market development.
18. It is not surprising therefore that international investors play an active part in the Hong Kong stock market, and major international investment banks have operations in Hong Kong. According to HKEx's Cash Market Transaction Survey, the share of overseas institutional investors was 34% for the 12 months ending September 2005, making it the single largest category of investors in terms of trading activities. This was higher than the shares of local institutional investors (27%) and local retail investors (30%).
19. On the banking side, the regulatory framework in Hong Kong is in line with international standards including the Basel Committee's Core Principles for Effective Banking Supervision. The supervisory process follows a risk-based approach which puts emphasis on the evaluation of the quality of authorised institutions (AIs) internal risk management systems. The objective is to devise a prudential supervisory system to help preserve the general stability and effective operation of the banking system, but at the same time to provide sufficient flexibility for AIs to take commercial decisions. It is also worth noting that about 70 out of the world's largest 100 banks maintain a presence in Hong Kong.

20. Apart from being sound, the regulatory framework in Hong Kong is also conducive to competitiveness. In the IMD and WEF studies, seven items are closely related to the regulatory environment and government responsiveness:
- legal and regulatory framework encourages competitiveness (LR);
  - efficiency of legal framework (LF);
  - regulation intensity does not hinder competitiveness (RI) – this item was not included by the study in 2004;
  - banking regulation does not hinder competitiveness (BR);
  - adaptability of government policy to changes in the economy (AG);
  - bureaucracy does not hinder business activity (BU); and
  - burden of government regulation is not huge (BG).

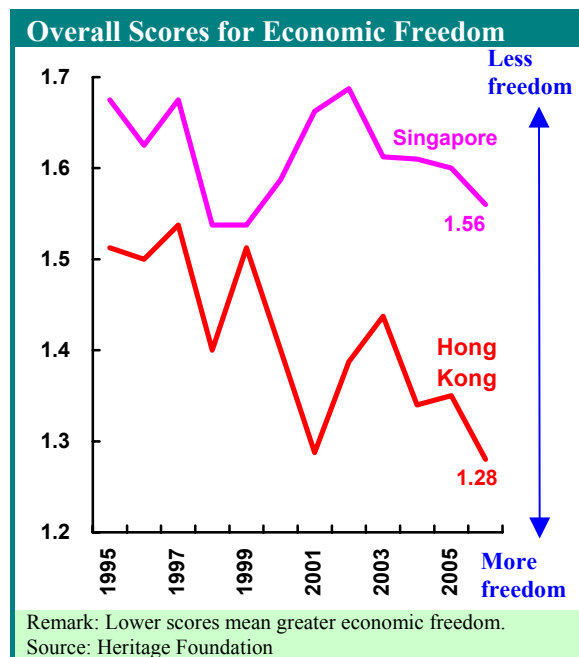
Rankings of the 13 Selected Economies in Items Related to Regulatory Environment and Government Responsiveness																
	2006								2004							
	LR	LF	RI	BR	AG	BU	BG	All	LR	LF	BR	AG	BU	BG	All	
Australia	3	4	5	3	2	4	11	4	3	3	3	4	3	7	3	
China	5	11	9	10	6	10	7	9	8	11	8	7	12	6	9	
<b>Hong Kong</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>10</b>	<b>2</b>	<b>2</b>	<b>2</b>	
India	7	7	7	5	7	11	12	8	9	8	6	5	10	12	8	
Indonesia	13	12	12	12	11	12	10	13	13	12	12	13	13	4	12	
Japan	6	6	4	9	8	9	8	6	10	10	13	11	9	10	11	
Korea	11	10	13	13	13	8	6	11	11	9	11	8	8	8	10	
Malaysia	4	5	3	7	4	3	3	3	4	5	5	3	4	5	4	
New Zealand	8	1	6	2	9	6	9	5	6	2	1	9	7	11	6	
Philippines	12	13	11	8	10	13	13	12	12	13	10	12	11	13	13	
Singapore	2	2	2	4	1	1	1	1	1	4	4	2	1	1	1	
Taiwan	10	8	8	11	12	5	4	9	5	6	7	6	5	3	5	
Thailand	9	9	10	6	5	7	5	7	7	7	9	1	6	9	7	

Remark: Rankings are among the 13 selected economies.  
 "All" refers to the overall ranking of a market in the competitive factor, based on the value of the simple average of the rankings in the selected items.  
 Sources: IMD, WEF and SFC Research

21. In terms of regulatory environment and government responsiveness, Hong Kong was co-ranked the first with Singapore among the 13 selected economies. Of the seven items, Hong Kong was ranked 1<sup>st</sup> in three items, 2<sup>nd</sup> in two items and 3<sup>rd</sup> in two items in 2006. Moreover, Hong Kong showed improvements from 2004 in most items.

## Access to International Financial Markets and Access to Customers

22. As the freest economy in the world, business in Hong Kong has ready access to international financial markets and customers. The Heritage Foundation has ranked Hong Kong as the freest economy in the world for 12 years running<sup>10</sup>. The overall score for the Index of Economic Freedom was 1.28 in 2006, and it has been by and large improving. Moreover, the gap between Hong Kong and Singapore, the 2<sup>nd</sup> freest economy, has actually widened in recent years.



23. The 2006 Index of Economic Freedom comprises 10 factors. Of the 10 factors, Hong Kong obtained the best score (i.e. the lowest possible score) of 1.0 in six of them<sup>11</sup> and did not score more than 2.0 in any of the remaining four factors<sup>12</sup>. (The possible range for the scores was 1 to 5.) According to the Heritage Foundation, “*Hong Kong remains a model of economic freedom. It .....[has] free entry of foreign capital and repatriation of earnings, and transparency, and operates under the rule of law.*”
24. In the IMD and WEF studies, five items are closely related to the access to international financial markets:
- access to capital markets, foreign and domestic, is easy (AC);
  - financial market sophistication is high in the economy (FM);
  - direct investment flows abroad as a percentage of GDP (DA);
  - direct investment flows inward as a percentage of GDP (DI); and
  - venture capital is easily available for business development (VC).

<sup>10</sup> Hong Kong is also ranked as the freest economy by the Fraser Institute. Please see *Economic Freedom of the World: 2005 Annual Report*.

<sup>11</sup> The six factors are capital flows & foreign investment, banking & finance, monetary policy, regulation, property rights and trade.

<sup>12</sup> The remaining four factors are fiscal burden of government, wages & prices, government intervention and informal market activity. Except for informal market activity, none of the other 12 selected economies had better scores than Hong Kong in these four factors.

Rankings of the 13 Selected Economies in Items Related to Access to International Financial Markets												
	2006						2004					
	AC	FM	DA	DI	VC	All	AC	FM	DA	DI	VC	All
Australia	2	1	3	3	5	2	3	1	5	3	5	3
China	13	13	11	5	13	12	13	13	9	4	11	11
<b>Hong Kong</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>
India	6	8	9	9	8	8	9	9	11	9	8	10
Indonesia	10	12	12	12	12	13	11	12	13	13	13	13
Japan	5	5	7	13	7	7	5	8	6	12	10	7
Korea	11	9	6	8	10	10	10	7	8	11	9	8
Malaysia	8	6	4	4	2	4	7	5	3	5	4	4
New Zealand	4	4	13	6	6	5	4	4	7	6	6	5
Philippines	12	11	8	10	11	11	12	11	10	7	12	12
Singapore	3	3	2	2	4	2	2	3	2	1	3	2
Taiwan	9	7	5	11	3	6	6	6	4	10	2	6
Thailand	7	10	10	7	9	9	8	10	12	8	7	8

Remark: Rankings are among the 13 selected economies.  
 "All" refers to the overall ranking of a market in the competitive factor, based on the value of the simple average of the rankings in the selected items.  
 Sources: IMD, WEF and SFC Research

25. In terms of access to international financial markets, Hong Kong has been doing very well. Of the five items, Hong Kong was ranked 1<sup>st</sup> in four items and 2<sup>nd</sup> in one item in 2006.
26. For access to customers, no items in the IMD and WEF studies are closely related to the factor. However, it can be assessed by looking at several facets of the Hong Kong economy. Hong Kong provides businesses ready access to customers because of
- Hong Kong's status as the freest economy in the world, which facilitates the free flow of goods, services, capital and information, and thus ensures free access to the international markets and customers; and
  - Hong Kong's position as the gateway to the Mainland, and its location in the heart of Asia.
27. These have attracted many multi-national companies to set up their regional headquarters (RHQs) or regional offices (ROs) here. About 3,800 overseas companies had regional operations in Hong Kong, including 1,200 RHQs and 2,600 ROs<sup>13</sup>. Their presence forms a strong and growing business and client base which in turn raises the demand for various kinds of financial, business, professional and trade services.

<sup>13</sup> Census and Statistics Department, "Annual Survey of Regional Offices Representing Overseas Companies in Hong Kong 2005".



28. With a market cap of US\$1,262 bn as of the end of June 2006, the Hong Kong stock market was the largest in Asia-ex-Japan. It is also the fifth largest equity fund-raising centre in the world and the largest in Asia, having overtaken Japan since 2004. The listing of Mainland companies on HKEx has been the main driving force for this. Again, their presence provides a growing client base and triggers the need for a full range of professional support services such as legal, accounting and auditing, underwriting, loans syndication, merger and acquisition, investment advisory, etc. It is therefore not surprising that all top investment banks have operations in Hong Kong.

### Availability of Business Infrastructure and A Fair & Just Business Environment

29. In the IMD and WEF studies, eleven items are closely related to the availability of business infrastructure and a fair & just business environment:

- communications technology meets business requirements (CT);
- mobile phones are readily available for business (MP);
- roads – density of the network (RO);
- railroads – density of the network (RA);
- quality of air transport encourages business development (QU);
- water transportation meets business requirements (WA);
- justice is fairly administered (JU);
- credibility of managers is widely acknowledged (CM);
- auditing and accounting practices are adequately implemented (AA) – this item was not included by the study in 2004;
- intensity of local competition (LC); and
- extent of market dominance (MD).

**Rankings of the 13 Selected Economies in Items Related to Availability of Business Infrastructure and A Fair & Just Business Environment**

	2006												2004											
	CT	MP	RO	RA	QU	WA	JU	CM	AA	LC	MD	All	CT	MP	RO	RA	QU	WA	JU	CM	LC	MD	All	
Australia	7	6	13	12	3	5	2	3	2	1	3	4	4	3	-	12	3	4	1	5	6	10	5	
China	10	12	11	8	11	10	9	11	10	10	10	12	12	12	10	8	11	10	11	11	10	7	11	
<b>Hong Kong</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>8</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>11</b>	<b>2</b>	
India	3	5	4	6	10	12	7	6	5	3	5	6	8	9	6	6	10	12	9	6	4	5	8	
Indonesia	13	13	10	11	13	13	13	13	11	13	12	13	13	13	9	11	12	11	13	13	13	4	13	
Japan	4	2	2	3	7	4	5	7	12	2	1	3	3	4	2	3	7	7	5	7	5	1	3	
Korea	5	7	6	4	9	8	11	12	13	9	11	9	5	5	5	4	9	9	10	12	8	9	9	
Malaysia	6	10	9	9	5	6	6	9	7	7	6	8	6	7	8	9	4	3	6	2	9	12	7	
New Zealand	12	11	8	-	4	3	3	4	3	4	4	5	9	6	-	-	5	6	3	10	2	8	6	
Philippines	9	4	7	10	12	11	12	10	9	12	13	11	11	8	7	10	13	13	12	8	12	13	12	
Singapore	2	3	1	2	1	2	4	2	4	8	7	2	1	1	1	2	1	1	2	1	7	3	1	
Taiwan	8	9	5	5	8	7	10	5	8	5	2	7	7	11	4	5	6	5	8	4	1	2	4	
Thailand	11	8	12	7	6	9	8	8	6	11	9	9	10	10	11	7	8	8	7	9	11	6	10	

Remark: Rankings are among the 13 selected economies.

“All” refers to the overall ranking of a market in the competitive factor, based on the value of the simple average of the rankings in the selected items.

Sources: IMD, WEF and SFC Research

30. In terms of availability of business infrastructure and a fair & just business environment, Hong Kong outperformed the other 12 selected economies in most items. Moreover, Hong Kong made improvements from 2004.

31. Hong Kong has an advanced and sophisticated business infrastructure, but the physical infrastructure in other major markets may also be comparable as this is relatively easy to build up. Therefore, what really distinguishes Hong Kong from other financial centres is the soft infrastructure, namely its fair & just business environment. Indeed, Hong Kong ranked 1<sup>st</sup> in most related items. Nevertheless, Hong Kong needs to improve in areas such as local competition.
32. In addition, the World Bank’s *Doing Business in 2006* shows that Hong Kong was the 4<sup>th</sup> in terms of ease of doing business among the 13 selected economies in Asia in 2006 (Hong Kong was ranked the 7<sup>th</sup> among the 155 economies in the world by the study). According to the World Bank study, Hong Kong is considered as business-friendly in areas such as hiring & firing workers, getting credit, protecting investors and paying taxes. However, Hong Kong needs to improve in the area of dealing with licenses.

### Corporate Tax Regime and Personal Tax Regime

33. In the IMD and WEF studies, four items are closely related to these factors:
  - efficiency of tax system in terms of simplicity and transparency (TS);
  - extent and effect of taxation (ET) – this item was not included by the study in 2004;
  - corporate taxes do not discourage entrepreneurial activity (CT); and
  - personal taxes do not discourage people from working (PT).

Rankings of the 13 Selected Economies in Items Related to Tax Regime									
	2006					2004			
	TS	ET	CT	PT	All	TS	CT	PT	All
Australia	13	13	9	11	13	10	8	11	9
China	10	10	5	5	7	7	4	4	5
<b>Hong Kong</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>
India	11	6	6	4	6	11	6	7	7
Indonesia	7	7	12	9	9	8	11	10	9
Japan	12	11	10	10	11	13	13	12	13
Korea	8	8	11	12	10	9	10	9	8
Malaysia	3	3	3	3	3	3	3	3	3
New Zealand	5	12	13	13	11	5	12	13	12
Philippines	9	9	8	6	8	12	9	8	9
Singapore	2	2	2	2	2	2	1	1	1
Taiwan	4	4	7	7	4	4	5	5	4
Thailand	6	5	4	8	5	6	7	6	6

Remark: Rankings are among the 13 selected economies.  
 “All” refers to the overall ranking of a market in the competitive factor, based on the value of the simple average of the rankings in the selected items.  
 Sources: IMD, WEF and SFC Research

34. Hong Kong’s tax system is regarded as the simplest, most transparent and most effective among the 13 selected economies. Tax rates are also among the lowest. These contribute to a favourable business environment which attracts business and investment and ultimately propels the development of a financial centre to serve the business community.

## Other Factors

35. The remaining four factors include operational costs, quality of life, cultural & language and quality & availability of commercial property. In the studies of IMD and WEF, 10 items are closely related to these factors:
- pay and productivity is strongly related to each other (PP);
  - office rent (OR);
  - national culture is open to foreign ideas (NC);
  - language skills are meeting the needs of enterprises (LS) – this item was not included by the study in 2004;
  - quality of life (QL);
  - health infrastructure meets the needs of society (HI);
  - pollution (PO);
  - quality of the educational system (QE);
  - education system meets the needs of a competitive economy (ES); and
  - cost-of-living index (CL).

Rankings of the 13 Selected Economies in Items Related to Operational Costs, Quality of Life and Cultural & Language																					
	2006											2004									
	PP	OR	NC	LS	QL	HI	PO	QE	ES	CL	All	PP	OR	NC	QL	HI	PO	QE	ES	CL	All
Australia	10	6	2	5	1	6	3	5	2	7	3	5	8	1	1	6	2	2	2	5	2
China	6	8	10	10	11	11	13	12	12	8	12	8	6	11	11	12	12	11	10	10	13
<b>Hong Kong</b>	<b>1</b>	<b>12</b>	<b>1</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>11</b>	<b>4</b>	<b>3</b>	<b>11</b>	<b>5</b>	<b>1</b>	<b>11</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>9</b>	<b>6</b>	<b>7</b>	<b>12</b>	<b>7</b>
India	12	9	7	1	10	10	9	8	4	2	7	12	10	9	10	10	7	4	2	8	8
Indonesia	11	1	11	12	13	13	10	11	13	6	12	11	2	10	13	11	11	13	7	11	11
Japan	7	13	12	13	6	3	4	7	8	13	9	9	13	13	5	5	4	10	8	13	9
Korea	8	11	13	9	8	9	7	9	10	12	11	10	12	12	9	9	7	9	12	11	11
Malaysia	4	1	9	4	5	4	5	3	5	4	2	4	3	7	4	2	5	4	3	6	3
New Zealand	5	5	6	7	2	7	2	6	6	5	4	6	5	6	2	8	3	5	6	4	4
Philippines	13	3	8	3	12	12	12	13	11	1	10	13	1	5	12	12	13	13	10	1	9
Singapore	2	7	3	2	3	1	1	1	1	9	1	2	7	3	3	1	1	1	1	8	1
Taiwan	3	10	5	8	9	5	6	2	7	10	6	3	9	8	7	3	6	3	5	9	5
Thailand	9	4	4	11	7	8	8	10	9	3	8	7	4	2	8	7	8	8	9	3	6

Remark: Rankings are among the 13 selected economies.  
 "All" refers to the overall ranking of a market in the competitive factor, based on the value of the simple average of the rankings in the selected items.  
 Sources: IMD, WEF and SFC Research

36. On the whole, Hong Kong's performance in these items was only fair. In Hong Kong, wages, office rent and the cost of living are high. Nevertheless, higher costs are compensated by higher productivity, so Hong Kong was ranked 1<sup>st</sup> in the item "pay and productivity is strongly related to each other".
37. We do however have to pay attention to other items such as quality of life and environmental issues because these may affect our competitiveness in the longer term. Hong Kong needs to improve in these areas if we are to stay ahead of the competition.

## Conclusion

38. Hong Kong is clearly ahead of other major markets in Asia in most of the 14 competitive factors, based on various authoritative studies. In most competitive factors, Hong Kong has been consistently outperforming other markets in Asia. In addition, Hong Kong has made improvements over the years. Hong Kong has a critical mass of expertise in the financial services and related professional sectors. Our regulatory framework is sound and of international standards. We also have a responsive government. As the freest economy in the world, Hong Kong also has ready access to international financial markets and customers. The business infrastructure is advanced and sophisticated, and the business environment open, competitive and conducive to enterprises that flourish under fair competition. In addition, tax rates in Hong Kong are low and the tax system simple and efficient.
39. It is worth noting that these factors are in fact inter-related, with one reinforcing the other. For instance, while a skilled workforce is critical to a financial centre, a well-established financial centre will in turn attract more skilled talents and thus the virtuous cycle continues. These factors also ensure that market forces work well such that businesses operate efficiently and respond swiftly to changes in the market.
40. Although Hong Kong is currently ahead of other markets in Asia, there is no room for complacency. As mentioned earlier that *The Study* also examined the scope for a third global financial centre (in addition to New York and London), but the views were split. Yet, most respondents agreed that if there were one, it would be most likely in China and probably Shanghai. Globalization is increasingly levelling the playing field. Other markets in Asia are striving to provide attractive opportunities for both entrepreneurs and investors. This facilitates their growth and will enable them to become more significant players in the region. For instance, the emergence of the Mainland as a major economy and its ongoing reforms to build a more market-based economy will surely provide lots of opportunities to investors and business, while also boosting its status as a significant player. Therefore, Hong Kong should continue to further strengthen its competitive advantages and to improve other areas such as enhancing competition, ensuring ease of doing business, improving quality of life, and addressing environmental issues in order to stay ahead in the competition.
41. As mentioned in *The Study*, the underlying strengths of the financial centres lie in the availability of skilled people, the regulatory environment and market liquidity. Therefore, Hong Kong should continue to solidify and strengthen its advantages to cope with increasing challenges from globalization.

## Appendix 1 – The 14 Most Important Competitive Factors for a Financial Centre

42. According to *The Study*, the measures which constitute each of the competitive factors are as follows:
- (i) availability of skilled personnel – availability of skilled personnel and the flexibility of the labour market;
  - (ii) regulatory environment – number of regulatory bodies and the philosophy of regulation. The interviewees also refer to regulation intensity and complexity;
  - (iii) access to international financial markets – geographical proximity. The interviewees also refer to the business clusters;
  - (iv) availability of business infrastructure – telecommunications, IT infrastructure and transport links;
  - (v) access to customers – the clientele base;
  - (vi) a fair & just business environment – legal system, personal trustworthiness and temptations to break rules;
  - (vii) government responsiveness – the level of support for financial services and government responsiveness to concerns of the industry;
  - (viii) corporate tax regime;
  - (ix) operational costs – cost of employment, travel time, travel expenses, etc;
  - (x) access to suppliers of professional services – for example accountants and lawyers;
  - (xi) quality of life – good work and life balance, leisure facilities and culture, healthcare facilities, school and colleges, transport system, residential property;
  - (xii) cultural & language – culture, cosmopolitan and accepting of people from other countries;
  - (xiii) quality & availability of commercial property – suitability of properties as offices; and
  - (xiv) personal tax regime – the personal tax rate.

### Appendix 2 – IMD *World Competitiveness Yearbook*

43. The IMD study focuses on the competitiveness of some 60 national and regional economies. The competitiveness of an economy is assessed by reference to four broad competitiveness factors; each of which can be broken down into five sub-factors:
- (a) Economic Performance
    - (i) domestic economy
    - (ii) international trade
    - (iii) international investment
    - (iv) employment
    - (v) prices
  - (b) Government Efficiency
    - (vi) public finance
    - (vii) fiscal policy
    - (viii) institutional framework
    - (ix) business legislation
    - (x) societal framework
  - (c) Business Efficiency
    - (xi) proficiency & efficiency
    - (xii) labour market
    - (xiii) finance
    - (xiv) management practices
    - (xv) attitudes & values
  - (d) Infrastructure
    - (xvi) basic infrastructure
    - (xvii) technological infrastructure
    - (xviii) scientific infrastructure
    - (xix) health & environment
    - (xx) education.

These 20 sub-factors were further broken down into 312 items in 2006.

### Appendix 3 – WEF *Global Competitiveness Report*

44. The WEF conducts an annual survey to assess the competitiveness of 117 economies. The competitiveness of an economy is assessed, based on nine broad factors:
- (a) Aggregate Country Performance Indicators;
  - (b) Macroeconomic Environment;
  - (c) Technology: Innovation & Diffusion;
  - (d) Human Resources: Education, Health & Labour;
  - (e) General Infrastructure;
  - (f) Public Institutions;
  - (g) Domestic Competition & Cluster Development;
  - (h) Company Operations & Strategy; and
  - (i) Environment.

These nine factors were broken down into 142 items in 2005/2006.