

Germany and Hong Kong – Connecting EU and China for the Financial Services Industry!

Dr. King Au
Executive Director
Financial Services Development Council

April 2021

About the FSDC

Who We Are

- The Financial Services Development Council (FSDC) :
 - Established in 2013 by the HKSAR Government.
 - To formulate policy proposals and map out strategic direction for the development of Hong Kong as an International Financial Centre.
 - The only advisory body across all financial services sectors in Hong Kong with 3 major mandates:

Policy Research

- 47 research papers, with over 140 policy recommendations and 80% adoption rate, since inception.
- Major research themes include Asset and Wealth Management, Connectivity, ESG and Fintech.

Market Promotion

- Learning and sharing of knowledge with key stakeholders through a global network of partners.

Human Capital Development

- Help develop home-grown professionals for the financial services industry.

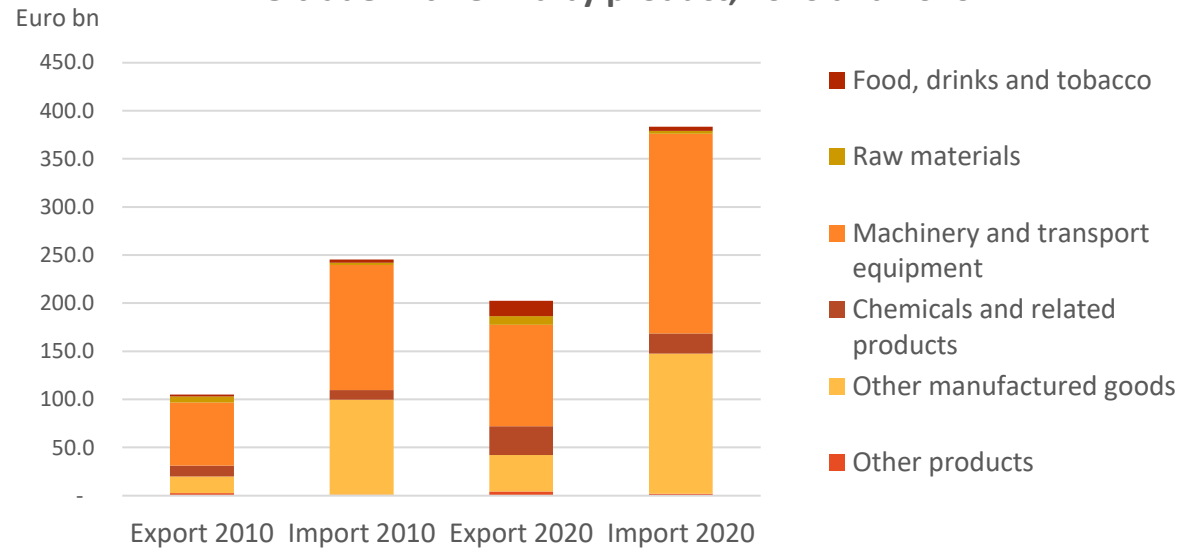


China Opportunities for the EU and Germany

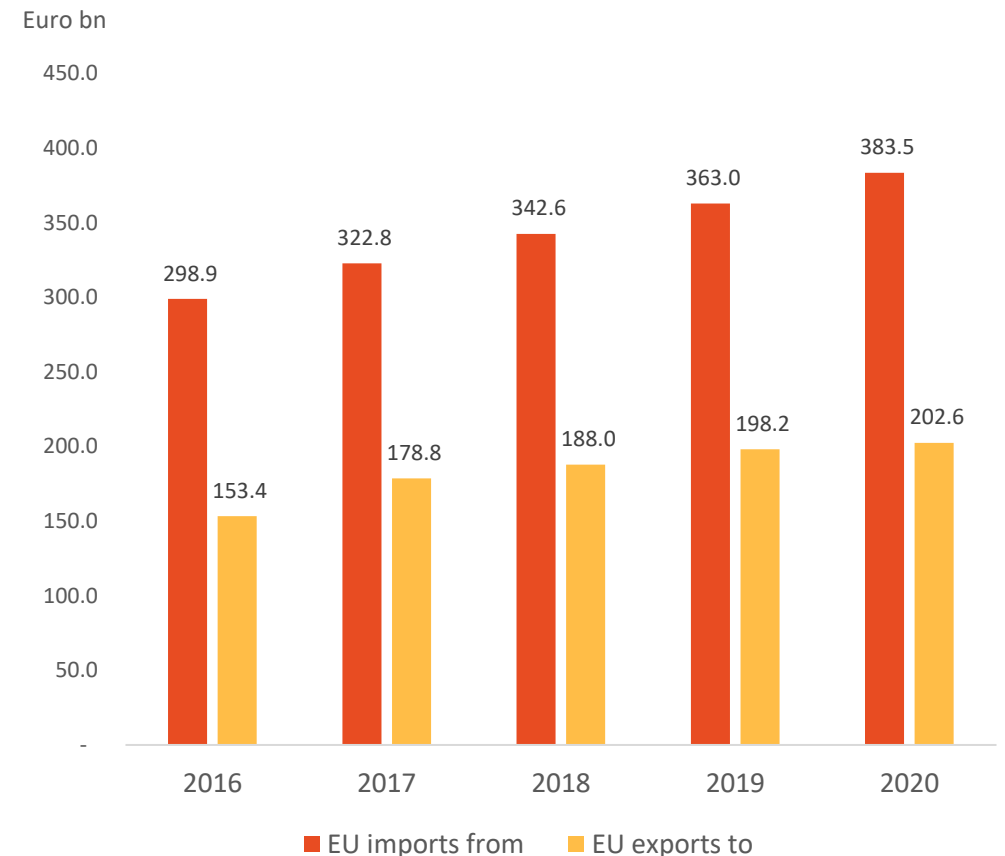
EU - China Trade Relations

- Strong resilience as evidenced by recovery in both exports and imports towards 2020 year-end.
- China surpassed the US to become the EU's biggest trading partner in goods last year.
- China is the EU's biggest source of imports and its second biggest exports market.
- China and Europe traded on average over **€1 billion** a day over the past few years.

EU trade with China by product, 2010 and 2020



EU trade in goods with China (2016 – 2020)



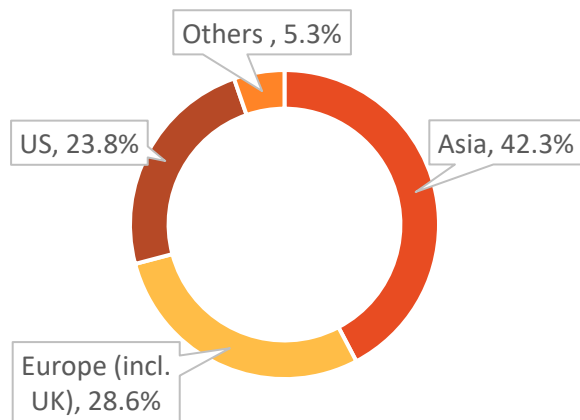
EU - China Investment Relations

EU-China Comprehensive Agreement on Investment

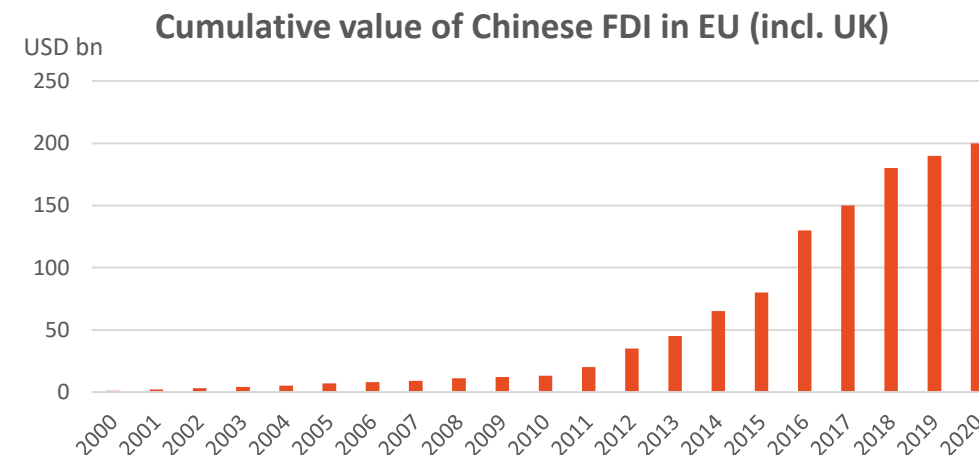
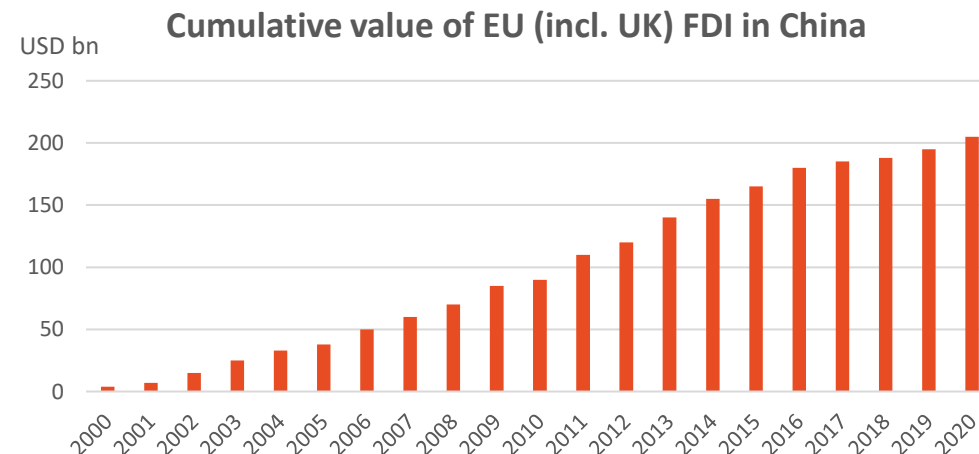
- It will be a major milestone of bilateral economic cooperation between the EU and China.
- To provide investors on both sides with predictable, long-term market access.
- To protect investors and their investments.
- Negotiations started in 2013, in-principle agreement reached in Dec 2020.

Financial investment – EU (incl. UK) investors accounted for 28.6% of total trading value generated by overseas investors on the HKEX cash market in 2019

Trading value in HKEX cash market by overseas investor origin (2019)



Direct investment - Cumulative EU-China FDI (2000 – 2020)



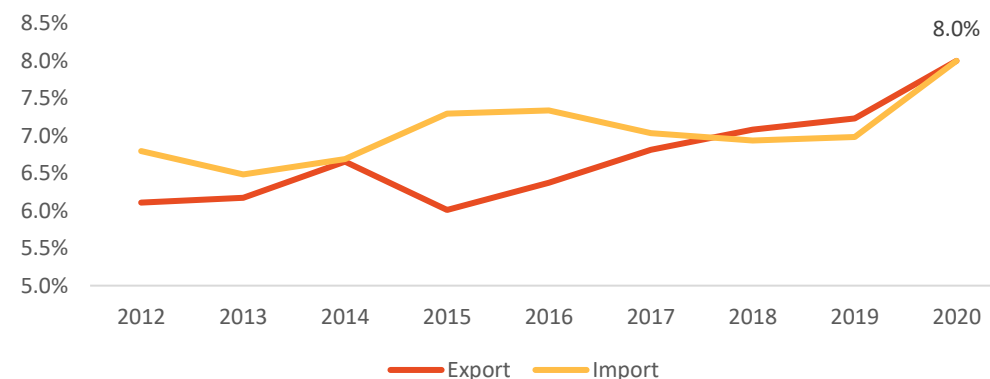
German – China Trade Relations

EU trade balance of goods with China 2020 (Top 15 Member States)

Member State	EUR million
Germany	14,388
Ireland	6,025
Finland	571
Luxembourg	-76
Malta	-322
Cyprus	-358
Latvia	-477
Estonia	-502
Bulgaria	-601
Sweden	-637
Slovakia	-731
Lithuania	-863
Croatia	-993
Denmark	-1,134
Slovenia	-1,698

- Germany holds the largest trade balance of goods with China in the EU.
- China has been Germany's biggest trading partner for 5 consecutive years, with total trade amounting to **EUR212.1** billion in 2020, a 3% increase from 2019.
- Germany's bilateral trade from China have grown steadily over the years. Exports to and imports from China accounted for **8%** of Germany's total exports and imports, respectively.

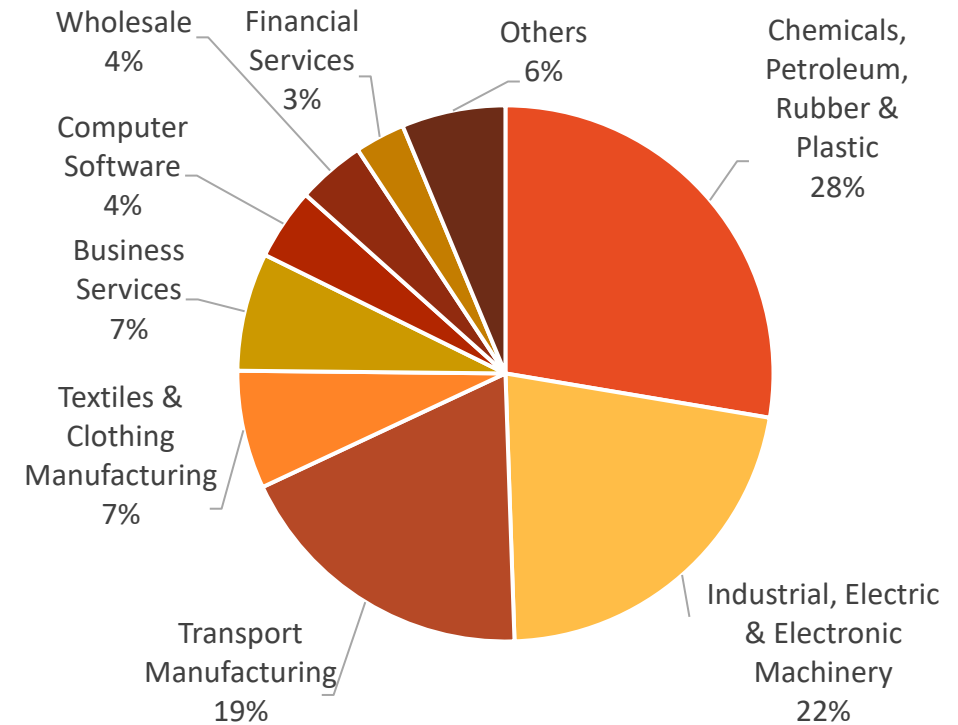
Germany's exports to and imports from China as % of total trade



German – China Investment Ties

- Germany is China's largest European investor, **5,000+** German companies investing in **10,000** projects with total investment of **USD90 billion** in 2019.
- Chinese FDI in Germany amounted to **US14 billion** in **2,000+** investment projects in 2019.
- German investments in China are heavily concentrated in manufacturing. During 2013 to 2018, only 3% of the investments were in the financial services sectors.

Industry breakdown of German investments in China by number of projects (2013 to 2018)

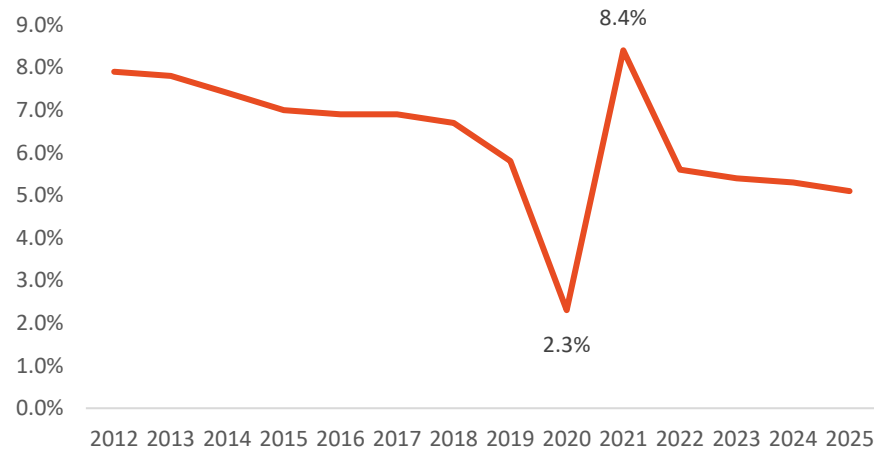


New Opportunities in China's Financial Services Industry

A stable macro environment evidenced by fast recovery from the economic downturn

- Despite the global pandemic, China managed to achieve a positive GDP growth of **2.3%**, the highest among major economies.
- The 2021 GDP growth rate is estimated by the IMF to reach a recent high of **8.4%**.

China's real GDP growth (2012 – 2025E)



Expedited opening-up of the domestic financial markets with enhanced market accessibility

- Relaxation of QFII (Qualified Foreign Institutional Investor) and RQFII (RMB Qualified Foreign Institutional Investor) regimes, e.g., lifting investment quota restrictions and simplifying fund repatriations.
- Gradual removal of foreign ownership limits in securities and futures firms, asset management firms, life insurance companies and banks. As a result, overseas financial institutions have accelerated expansion into the Mainland market.



In Jan 2021, not long after the announcement of in-principle agreement on the Comprehensive Agreement on Investment, Allianz obtained regulatory approval to set up China's first wholly foreign-owned insurance asset management company.

Hong Kong as the Super-Connector

Hong Kong as APAC's International Financial Centre



Sophisticated financial markets and infrastructure

- Free flow of capital;
- USD peg provides monetary and financial stability;
- A sound, reliable, and transparent common law system;
- Ranked **#1** IPO market globally in 7 of the last 12 years;
- World's **#2** largest biotech IPO market ;
- Asia's **#2** largest PE hub in APAC after Mainland China;
- Ranked **4th** in the latest Global Financial Centres Index.



Strategically located at the heart of Asia

- Half of the world's population within **5-hour** flight's reach;
- **1-hour** access to core cities of the Greater Bay Area.



Unparalleled connectivity with Mainland China

- The world's largest offshore RMB centre with RMB **750 bn**;
- The unique Stock Connect and the Bond Connect schemes facilitate international investments in Mainland China's security markets;
- The most sophisticated offshore RMB investment and risk management centre globally.



Business friendly simple and low tax system

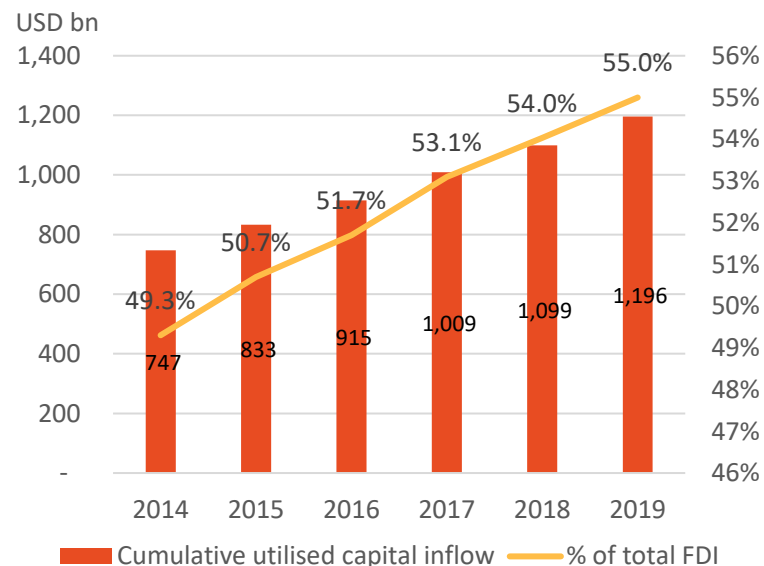
- Profits tax at **16.5%**; salaries tax at **15%** ;
- **0%** sales tax, VAT, dividend tax, capital gain tax, and estate tax;
- **45** comprehensive double taxation agreements, with another **12** under negotiation.

Hong Kong as an Investment Gateway

As a direct investment channel

- Hong Kong is the largest source of FDI in Mainland China.
- USD1.2 billion, or 55% of national total, as of 2019.

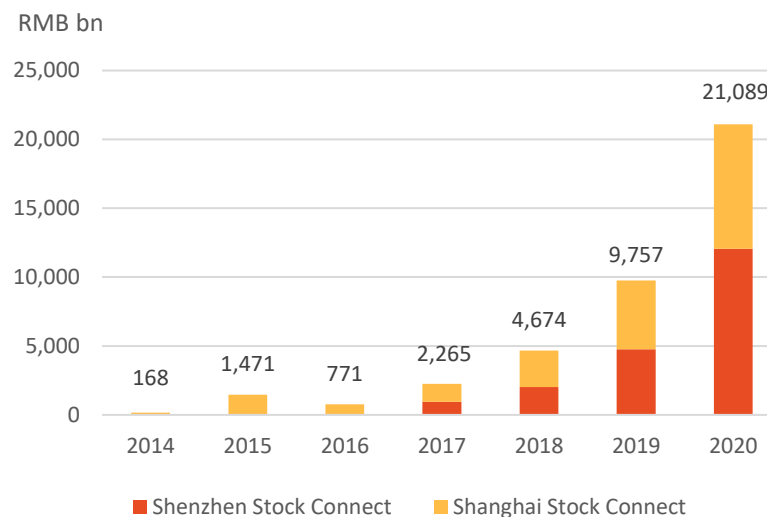
Mainland China's FDI from/through Hong Kong



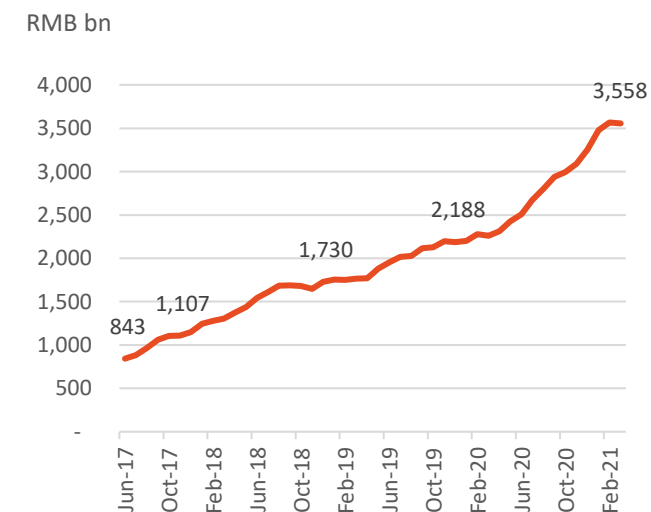
As a financial investment platform

- The Stock Connects - 70% of A-shares' foreign holdings traded through Hong Kong in 2020.
- The Bond Connect - 30% of net inflow into Mainland bonds since inception in July 2017.

Northbound trading value of Stock Connects

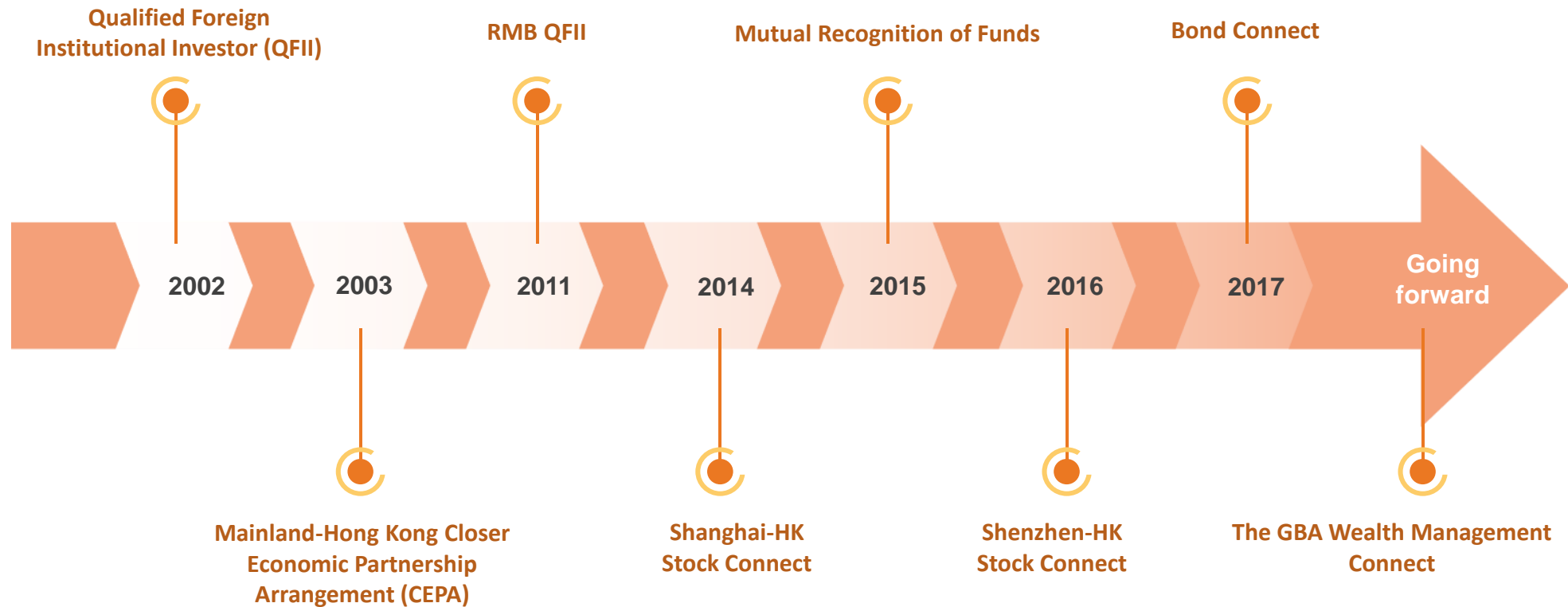


Foreign holdings of Mainland bonds



Hong Kong as the CONNECT hub

Since the introduction of QFII (Qualified Foreign Institutional Investor) scheme in 2002, Hong Kong has been playing a crucial role as the investment gateway connecting international and Mainland markets.



The Greater Bay Area

The Guangdong-Hong Kong-Macao Greater Bay Area Plan

The Guangdong-Hong Kong-Macao Greater Bay Area (the GBA) plan creates an integrated financial and innovation zone around Hong Kong

GBA as the largest bay area in the world with huge growth potential

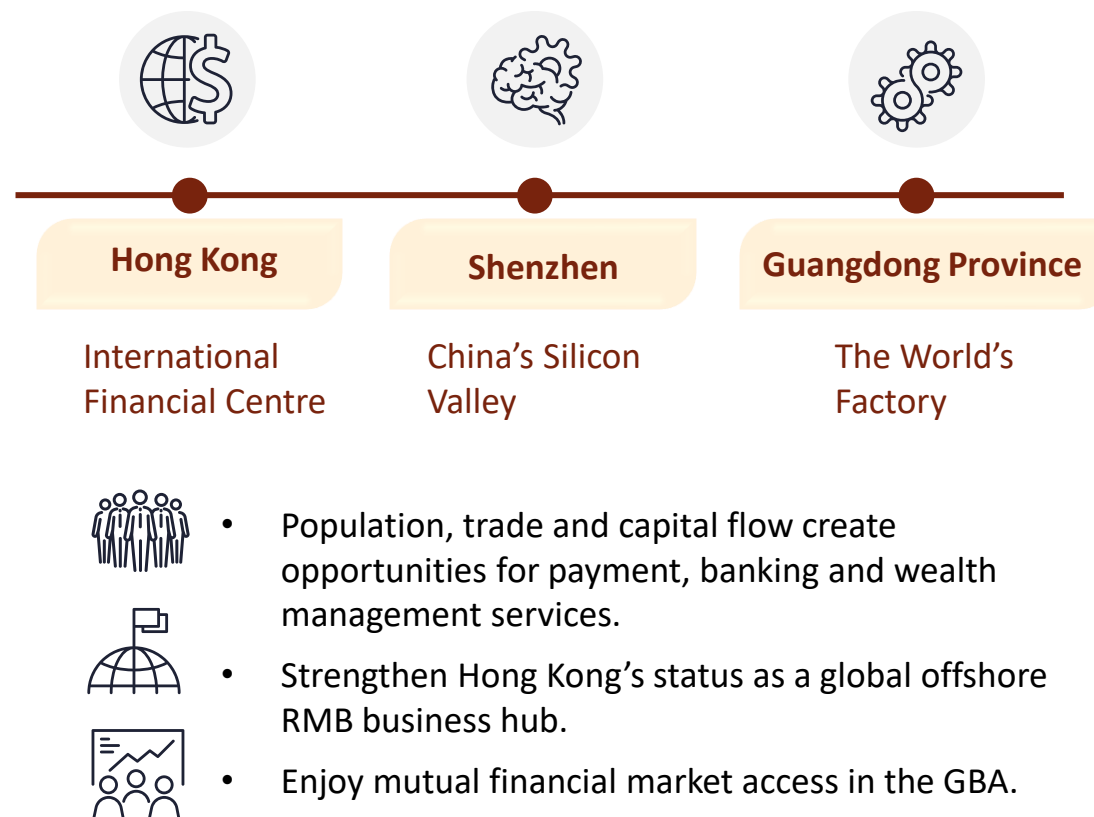


(2019)	San Francisco Bay Area	New York Metropolitan	GBA	Tokyo Bay Area
Land area (sq. km)	17,900	21,500	56,000	36,900
Population (mn)	7.7	19.3	72.6	44.3
GDP (USD tn)	0.9 ¹	1,7 ¹	1.6	1,9 ²

Note1: 2018 figures

Note2: 2017 figures

Hong Kong will be benefited from the development of the GBA

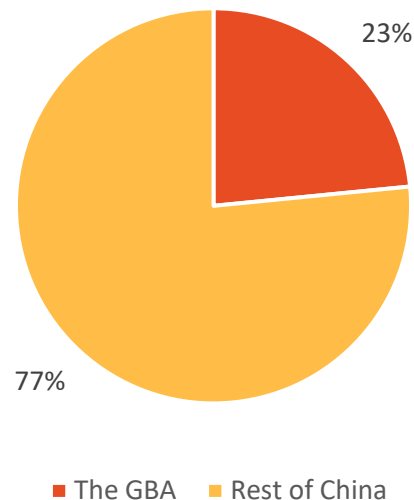


Vibrant Markets in the GBA Present Ample Opportunities

The largest concentration of billionaires among the world's greater bay areas

- The GBA is home to the highest population of billionaires in the world.
- **1,058** billionaires (in USD) in China with **248 (23%)** in the GBA.

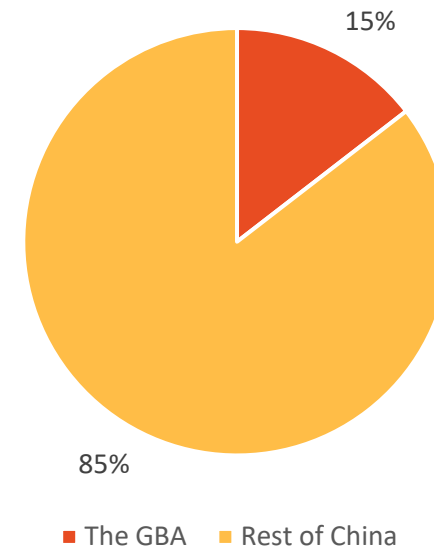
Number of billionaires in China



Home to agile entrepreneurs and unicorn companies

- China is home to **227 Unicorns**, ranked second after the US.
- **33** are located in the GBA, a 10% increased from 30 in 2019.

Number of unicorns in China



Capturing Financial Services Opportunities through Hong Kong

Key Development Themes and Opportunities therein

Abundant business opportunities lie ahead for financial services in Hong Kong around four fast-evolving themes

**Asset and Wealth
Management**

Family Office

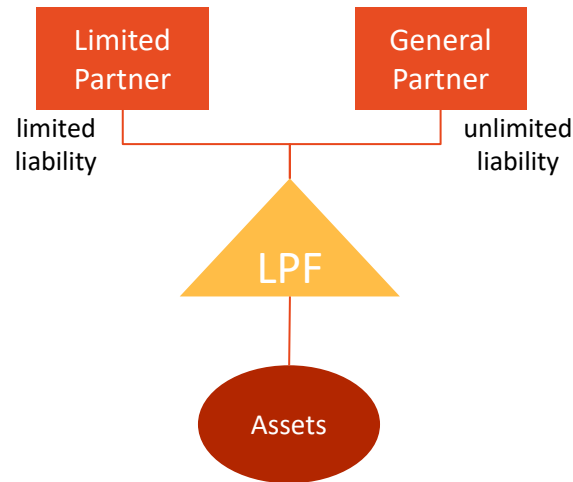
**Offshore RMB Business
and the E-CNY**

**Environmental, Social, and
Governance (ESG)**

Asset and Wealth Management – Supportive Policy Measures

New corporate structures tailored for investment funds

Typical structure of Limited Partnership Funds (LPF) ~ GmbH or AG



Open-ended Fund Companies (OFC) ~ SICAV

- An investment fund in corporate form domiciled in Hong Kong;
- Different from unit trusts in that it is a separate legal entity and has a board of directors;
- The assets will be segregated and entrusted to the custodian for safekeeping.

Tax incentives and government subsidies

- **Fund level tax exemption:** Profits tax exemption for all onshore and offshore private funds under the Unified Fund Exemption (UFE) regime.
- **Carried interest tax exemption:** 0% profits tax and salaries tax on carried interest is expected.
- **Re-domiciliation:** Foreign investment funds are encouraged to re-domicile to Hong Kong for registration as OFCs or LPFs.
- **Subsidies.** Re-domiciliation subsidies for OFC will be provided in the coming three years, subject to a cap of **HKD1 million** per OFC.

Family Office Hub of Choice!



A melting pot of East and West offering cosmopolitan lifestyle option

- 15,000+ restaurants, over 60 Michelin starred restaurants
- Unique market access to Mainland China



Asia's No. 1 and World's No. 3 Art market

- USD886m auction value in 2019



One of the largest wine auction centres in the world

- USD160m auction value in 2019



Regional centre for philanthropy

- 15,000+ charitable organisations in Hong Kong

- InvestHK, as the one-stop liaison office for family offices, offers a wide range of customised services, free of charge, to support family office set up.
- The Government has announced plans to review tax arrangements relevant to family office business.

ESG – Growing into a Regional Green Finance Hub

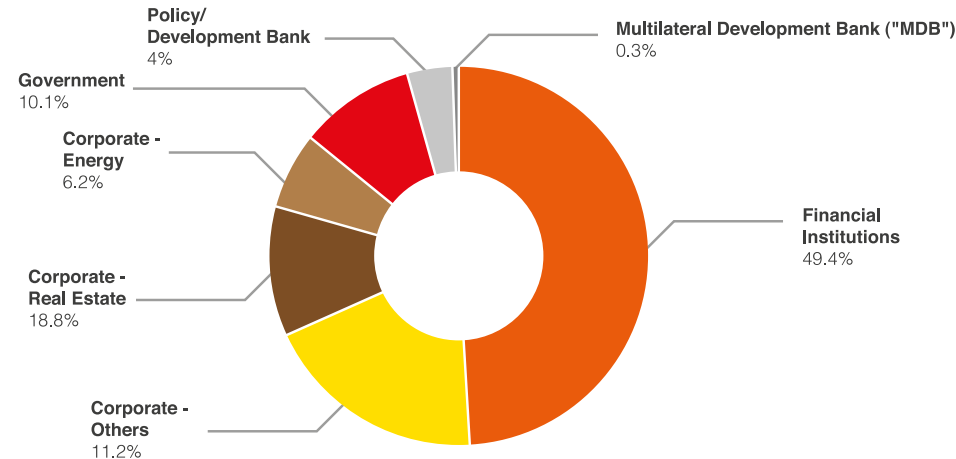
China is committed to achieving carbon neutrality by 2060

➤ Hong Kong aims to become China's international green financing hub

A regional hub for green bond issuance

- Hong Kong was ranked 11th in terms of green bond listing venue (2019);
- US\$10bn of green bonds arranged and issued in Hong Kong (2019).

2019: Issuers come from diverse sectors



Source: Climate Bonds Initiative

Growing green bond assets by banks

- Green loans acquired by Hong Kong banks (April 2019): US\$2.56bn+ ;
- Green assets owned by Hong Kong banks (April 2019): US\$7.82bn+ ;
- Hong Kong companies recorded the best overall performance in Asia for environmental sustainability (2019).

Issuance of Government green bonds

- May 2019: US\$1bn inaugural green bond issuance with a 5-yr tenor;
- Jan 2021: US\$2.5bn of green bonds including a 30-yr tranche, the longest-tenor USD government bond in Asia;
- To further issue green bonds totaling HK\$175.5 billion within the next five years.

International cooperation

- Hong Kong aims to adopt the Common Ground Taxonomy, which will be developed by the International Platform on Sustainable Finance (IPSF) Working Group on Taxonomies co-led by the EU and China.

Sustainable Finance - Sustainable & Green Exchange (STAGE)

- An online HKEx portal providing information, access and transparency on a wide range of sustainable, green and social investment products.

Offshore RMB and eCNY

Internationalisation of the RMB

- Hong Kong is the largest offshore RMB financial market by far.
- RMB became the 5th most active payment currency and the 6th largest reserve currency as of 2020.

Rank	Payment currency	Reserve currency
1	USD	USD
2	EUR	EUR
3	GBP	JPY
4	JPY	GBP
5	RMB	Others
6	CAD	RMB
7	AUD	CAD
8	HKD	AUD
9	SGD	CHF

eCNY and Hong Kong

- China has been working on DCEP (Digital Currency Electronic Payment) since 2014, also known as e-CNY, and subsequently rolled out pilot tests in various Mainland cities since May 2020.
- The project has entered the second stage to look at the operability and scalability of cross border CBDC participation, and joined by the Central Bank of the **United Arab Emirates** and the Digital Currency Institute of the People's Bank of China (PBOC).
- In Hong Kong, the Hong Kong Monetary Authority (HKMA) launched a joint research project, "Inthanon-LionRock", with the Bank of **Thailand** in 2019 to address various concerns related to cross-border payments and digital currencies.
- In April 2021, the HKMA successfully conducted a technical pilot testing of using e-CNY for making cross-border payments with PBOC, and will move forward to the next phase of technical testing.

Thank you

Contacts

The Financial Services Development Council

Unit 502, 5/F, Nexxus Building, No. 41 Connaught
Road Central
Hong Kong

Tel: (852) 2493 1313

Email: enquiry@fsdc.org.hk

LinkedIn



Twitter



Website



Hashtag

