



To : Association & Chapter/Section Heads  
Cc : HKTDC Regional & Branch Directors, Smilely Lam, Irene Hau, Paloma Lau  
From : Federation Secretariat  
Date : 29 June 2020  
**Subject** : Chairman's Message

Dear fellow colleagues,

The world is going through unprecedented challenges and business uncertainties brought by COVID-19 and heightening geopolitical tension. Hong Kong, as an open economy, is inevitably facing tremendous challenges. But, despite the current difficulties, with its resilience and strong fundamentals, I believe Hong Kong will ride out the storm and come back stronger.

I would like to share with members my thoughts and observations on the recent developments in the city. First of all, despite the seismic impact of Covid-19 around the world, Hong Kong has been highly regarded as one of the few areas which has successfully contained the pandemic. Along with coordinated government action, businesses here have been nimble and fast enough to innovate under the past few months of business disruptions. They have gone through rapid transformation, from offline to online, and deployed various digital means to ensure smooth business operations. In coping with the pandemic and the new normal, we saw new ideas, products and solutions, in areas such as AI, robotics, biotech and health-tech, e-commerce, smart city and sustainability in the city. The people's willingness to comply with health measures ensured that the city did not have to be under a total lockdown even when the situation was severe.

Members may also be aware that Hong Kong is charting a new path to develop itself as the innovation and technology hub in the region, leveraging on its well-established financial market as well as the tremendous resources offered by the Greater Bay Area (GBA). The GBA, in particular, provides immense opportunities for young talents not just from Hong Kong, but also from round the world.

We understand that there have been recently different voices and views on Hong Kong's economic and political development. I firmly believe that looking at different sides of the picture would help to give an informed and objective view. With this in mind, HKTDC has helped to put together with the Federation some facts and figures to show you how Hong Kong is faring and where it stands. We hope the attached information will provide you with useful facts and perspectives on the salient issues Hong Kong is facing and could serve as good reference in promoting Hong Kong to your local business communities. The Secretariat will also keep you informed of the economic updates and other business news regularly.

Since its formation in 2000, the Federation has spared no effort in promoting closer business links between Hong Kong and the world. The role of our 46 Hong Kong Business Associations as Hong Kong's global ambassadors has become more important than ever in helping to retain international confidence in Hong Kong. The Federation will continue its commitment to promoting international partnerships through Hong Kong.

Every crisis brings change, and change brings opportunity. Just as Hong Kong has adapted itself to the numerous changes it went through in the past hundred years, I have full confidence that the city can re-invent itself, ready to take on future challenges.

Taking this opportunity, I hope you are all keeping healthy in this challenging time, and I look forward to seeing you soon at the upcoming Hong Kong Forum this December.

Best regards,

A handwritten signature in black ink that reads "Dennis Chiu". The signature is written in a cursive, flowing style.

Dennis Chiu  
Chairman  
Federation of Hong Kong Business Associations Worldwide

## Useful Facts about Hong Kong's Latest Economic Development

### 1. Hong Kong as an International Financial Centre

- HK is an integral part of the international financial system: for example, the US securities supervisor has an enforcement agreement with Hong Kong; the territory is on the oversight board of CLS, a global currency-settlement platform backed by the Federal Reserve which deals in Hong Kong's currency, among others. Most bank supervisors and risk officers treat a counterparty in Hong Kong like one in Heidelberg.
- Vital bridge between the global and Mainland China's financial systems: through regulated systems such as Stock Connect and Bond Connect, Hong Kong is a vital platform to connect global capital with the world's second largest economy; with insurance and wealth management being planned with the Greater Bay Area, the widened scope will offer more opportunities for international companies.
- Of 163 licensed banks in Hong Kong, 132 are foreign-incorporated (as of end-May 2020). Hong Kong is also home to over 70 of the world's top 100 banks, according to the Hong Kong Monetary Authority (*HKMA*).
- According to a triennial global central banks survey conducted by the Bank for International Settlements in 2019, Hong Kong was the world's fourth largest foreign exchange market in terms of turnover (accounting for 7.6% of global FX turnover), trailing the UK (43%), the US (17%) and Singapore (7.6%).
- As per latest update from HKMA in late May 2020, the HKD market has been functioning normally, with interest rates staying low and the HKD exchange rate remaining stable. There have not been any signs of significant fund outflows from either the HKD or the banking system.
- Capital adequacy ratio stands at about 20 percent as compared with global standard of 8 percent. The liquidity ratio is about 160 percent, whereas the global requirement is only 100 percent.
- HKMA started granting virtual bank licences in late March 2019, a major milestone in supporting Hong Kong's entry into the smart banking era.
- As of 31 May 2020, HKMA has granted a total of 8 virtual banking licenses in Hong Kong, including *Livi VB Limited*, *Mox Bank Limited*, *ZA Bank Limited*, *Welab Bank Limited*, *Ant Bank (Hong Kong) Limited*, *Fusion Bank Limited*, *Airstar Bank Limited* and *Ping An OneConnect Bank (Hong Kong) Limited*.

- As of May 2020, there were 2,482 companies listed on the Hong Kong Exchanges (HKEx), with a total market capitalisation of about US\$4.4 trillion. As of December 2019, Hong Kong's total market capitalisation was ranked fifth in the world and third in Asia.<sup>1</sup>
- As of June 2020, 234 Chinese companies have US exchanges as their major listing venue, of which 19 (with a total market cap of US\$340 billion) are eligible for secondary listing in Hong Kong since the HKEX relaxed listing rules to allow weighted voting right structures (WVR) for international companies to enter Asia and Mainland China through a secondary listing.
- In terms of initial public offerings (IPO), Hong Kong raised US\$36.7 billion in 2018, the highest in the world for the sixth time over the past decade. In 2019, Hong Kong remain as the world's top IPO market, raising a total of HK\$307.8 billion (US\$39.5 billion) with its main board listings reaching a historical high of 145.<sup>2</sup>
- Over the past 23 years, the total market capitalisation of Hong Kong stock market has increased from HK\$3,200 billion in 1997 to more than HK\$36,000 billion currently. The growth in the stock market has opened up channels for state-owned enterprises, red-chips and private enterprises of the Mainland China to raise fund in Hong Kong. As a result, Hong Kong has become a hub for enterprises with growth potential and fundraising needs, as well as capital looking for returns.
- The establishment of the connection mechanism between Hong Kong and the Mainland stock markets has linked up the capital and market of the Mainland and the world. The stocks currently covered by the southbound and northbound transactions amount to 77% of the total market capitalisation of Hong Kong and the Mainland, giving rise to the development of the derivative products market.

## 2. HK-US Dollar Peg

- Hong Kong is the world's third-largest USD forex trading centre. The 2019 Hong Kong Act authorises the US President to modify HK's status as a 'separate customs territory', which was introduced in Hong Kong to stabilise our financial system in October 1983, much earlier than the US-Hong Kong Policy Act in 1992. This Linked Exchange Rate System (LERS) is currently sitting on one of its strongest defence positions in a decade, with the HKMA holding a foreign reserve of over US\$440 billion, which is twice the size of its conversion commitment, the Hong Kong dollar monetary base. In addition, there is still exceptionally large liquidity of close to HK\$95 billion in interbank closing balance.

<sup>1</sup> Securities and Futures Commission

<sup>2</sup> KPMG, Mainland China and Hong Kong 2019 IPO review

- Overall, the local financial market continues to operate in a smooth and orderly manner, reflecting strong market confidence in the LERS, a regime that is clear, transparent and proven to work well.

### 3. The US-Hong Kong Trade Relations

- US-HK trade relations have always been extensive. In 2019, there were 1,344 US companies in Hong Kong, next only to companies from Mainland China and Japan. Of which, 735 are regional headquarters and offices, the largest number among non-resident companies.
- US direct investment in Hong Kong totalled US\$82.5 billion (stock) in 2018, ranked 5th among Asia and Pacific destinations. Hong Kong is the 7th largest foreign holder (US\$243 billion as of April 2020, 3rd among Asia after Japan and mainland China) of US Treasury securities, as well as the 4th largest Asian holder (US\$406 billion as of March 2020) of US long-term securities.
- In terms of trade, 98.8% of Hong Kong exports to the US are re-exports in 2019, i.e. products produced outside Hong Kong with non-HK country of origin. Hong Kong domestic exports (HK-made products) to the US only account for 0.1% of Hong Kong's total exports. Impact of tariff increase in Hong Kong domestic export to the US is hence limited. In 2019, the US ran a US\$26.0 billion trade surplus against Hong Kong, the largest among all US trade partners for more than 10 years.

### 4. Europe-Hong Kong Trade Relations

- Hong Kong's total exports to the EU (excluding the UK) decreased by 22.8% to US\$10.4 billion in the first four months of 2020, following a 7.5% decrease to US\$39.3 billion in 2019. On the other hand, Hong Kong's imports from the EU dropped by 25.6% to US\$7.6 billion in the first four months of 2020, after decreasing by 5.2% to US\$30.2 billion in 2019.
- Many EU companies have used their operations in Hong Kong as a springboard to other Asia-Pacific markets, especially mainland China. As of June 2019, there were 308 EU companies with regional headquarters in Hong Kong, while another 419 had regional offices.
- The EU is one of the major sources of foreign direct investment in Hong Kong. According to the latest available figures from the Census and Statistics Department, the total stock of direct investment from the EU (excluding the UK) amounted to US\$6.2 billion (or HK\$48.5 billion) as at the end of 2018.

- The EU is well represented in trading, finance, insurance, retailing, transportation and other sectors of the Hong Kong economy. Major companies with EU interests include the ABN AMRO, Air France, AXA, BASF, Banco Santander, Banco di Roma, Banco Bilbao Vizcaya Argentaria, Banca Monte Dei Paschi Di Siena, BNP Paribas, Commerzbank AG, Credit Agricole, Deutsche Bank, Ericsson Limited, ICI (China), Intesa Sanpaolo, L'Occitane, Lufthansa German Airlines, Siemens, LVMH Asia Pacific Ltd, Parfums Christian Dior Far East, Philips Hong Kong Ltd., Shell Hong Kong Ltd and TÜV Rheinland.

## 5. What did International Companies Say about Hong Kong

### Uber

**26 May:** Uber proposes Hong Kong as it's Asia Pacific headquarters:

<https://www.uber.com/en-HK/newsroom/regulate-uber/>

<https://www.scmp.com/news/hong-kong/transport/article/3086959/uber-boss-hong-kong-doubles-down-commitment-city-despite>

### MSCI

**27 May:** MSCI decided to license to the HKEX the issuing of futures and options contracts based on a suite of MSCI indexes on Asia and emerging markets.

[https://www.hkex.com.hk/News/NewsRelease/2020/200527news?sc\\_lang=en](https://www.hkex.com.hk/News/NewsRelease/2020/200527news?sc_lang=en)

On this subject, MSCI CEO Henry Fernandez speaking at the Bloomberg Invest Global conference on June 24:

*"I've been going to Hong Kong, China and the rest of Asia for over 40 years. I have heard this story before many times, as to the demise and the relevance of Hong Kong," Fernandez said during the virtual conference. "It hasn't happened. Every time, Hong Kong comes back stronger, more resilient and reinvents itself...We believe that China now has a very strong interest in supporting and encouraging the development of Hong Kong as an international financial centre..."*

### **Tara Joseph, President of the Hong Kong American Chamber of Commerce (1 June, 2020)**

*"We are already in tough times, but Hong Kong has always been a win-win for everybody at the end. And I don't think we should really write off Hong Kong because when we get through this difficult period of disruption and geopolitical tensions, Hong Kong could well find a new place; it could find a [new] reason why it's important."*

Tara Joseph, president of the American Chamber of Commerce in Hong Kong, <https://www.scmp.com/video/hong-kong/3087019/hong-kong-new-berlin-american-chamber-commerce-president-talks-citys-future>

## 6. Survey Insights

### PwC, AmCham China and AmCham Shanghai

- **April:** Over 70% of respondents say their company has no plans to move production/supply chain operations or sourcing to other locations due to COVID-19
- 40% of respondents say their long-term supply chain (3-5 year) strategy for China will remain the same despite COVID-19; while 52% of companies believe it is too soon to tell.  
<https://www.pwccn.com/en/consulting/supply-chain-strategies-under-impact-covid-19-large-american-companies-operating-china-1.pdf>

### The American Chamber of Commerce in Hong Kong

- **June 3:** The American Chamber of Commerce published a “temperature testing” survey of members and other businesses in Hong Kong. As details of the National Security Law and the US threat to remove Hong Kong’s special treatment are still unknown, respondents were understandably concerned and eager to know more. However, it is worth noting that over 70% had no plans to relocate their capital, assets or business operations. Also over 60% have not personally considered leaving Hong Kong.  
<https://amcham.org.hk/uploads/media/default/0001/08/e63cc524fe6b2d94c1b12b01c6249e144a394a9a.pdf>

### Hong Kong General Chamber of Commerce

- **June 4:** In the Hong Kong General Chamber of Commerce’s survey on the impact of a National Security Law for Hong Kong, a majority of respondents (61%) believe that the law will either have a positive impact or no impact at all on their businesses over the long-term.
- The Chamber concludes that the business community in general is positive about the law in the long run.
- In terms of day-to-day operations, only 25% of respondents expected the law to have a negative impact, while up to 75% felt it will either have a positive impact or no impact at all.  
[https://www.chamber.org.hk/en/information/survey\\_details.aspx?ID=37](https://www.chamber.org.hk/en/information/survey_details.aspx?ID=37)

## The European Chamber of Commerce in China

- **June 10:** The European Chamber of Commerce in China published the *European Business in China - Business Confidence Survey 2020*, conducted by leading German research firm Roland Berger.
- "Despite the difficult global environment and uncertainties caused by the COVID-19 pandemic, European companies overall remain strongly committed to China, which remains a top three investment destination for 63% of respondents," said Denis Depoux, Global Managing Director of Roland Berger.
- "European companies are increasingly in China for China, both to meet growing domestic demand and to tap into its innovative ecosystem." <https://www.eurochamber.com.cn/en/press-releases/3230>

## Alternative Investment Management Association

- **June 20:** At least six hedge fund managers have set up shop in Hong Kong in 2020, according to the London-based industry group, whose 2,000 corporate members manage more than US\$2 trillion in hedge and private credit funds.
- Thirty-two new funds started in Hong Kong in 2019, while the number of firms grew by a third from 2015 to 2020, boosting assets under management by 85 per cent. The association said it has 251 members in Hong Kong managing more than US\$100 billion.
- Firms have good reasons to remain in Hong Kong, according to the association, citing the predominance of locals in the industry workforce and the proximity to China's stock markets.

## 7. Hong Kong's Latest Facts and Figures

- Hong Kong's economy contracted sharply by 8.9% year-on-year in real terms in the first quarter of 2020, after a fall of 3.0% (yoy) in the preceding quarter. Considering the slowdown in global economic growth and the threat of novel coronavirus infection, the Government forecasts Hong Kong's economy to grow by -4% to -7% in 2020, revised downward from -1.5% to 0.5% as in the previous round of review.
- Overall consumer prices rose by 1.9% in April 2020 over the same month a year earlier, lower than the corresponding increase of 2.3% in March 2020. Considering inflation rates in Hong Kong's major import sources are likely to subside further, the Government forecasts Hong Kong's

underlying consumer price inflation at 2.2% in 2020, revised downward from 2.5% as in the previous round of review.

- The value of retail sales, in nominal terms, decreased by 42% year-on-year in March 2020 over the same month a year earlier, compared with a year-on-year decrease of 44% in February 2020.
- The labour market conditions deteriorated. The seasonally adjusted unemployment rate increased from 4.2% in January – March 2020 to 5.2% in February – April 2020.
- Merchandise exports decreased by 3.7% in April 2020 over the same month a year earlier, after a year-on-year decrease of 5.8% in March 2020.

	2018	2019	Latest
Population, Year-end (mn)	7.49	7.50	--
Gross Domestic Product (US\$ bn)	363.5	367.4	85.0 <sup>a</sup>
GDP Per Capita (US\$)	48,783	48,938	--
Real GDP Growth (%)	+2.8	-1.2	-8.9 <sup>b</sup>
Inflation (% Change in Composite CPI)	+2.4	+2.9	+1.9 <sup>c</sup>
Unemployment Rate (%)	2.8	2.9	5.2 <sup>d</sup>
Retail Sales Growth (%)	+8.7	-11.1	-35.0 <sup>b</sup>
Number of Visitors (mn)	65.1	55.9	3.5 <sup>a</sup>
Visitor Arrivals Growth (%)	+11.4	-14.2	-80.9 <sup>b</sup>

<sup>a</sup> January – March 2020; <sup>b</sup> year-on-year change, January – March 2020; <sup>c</sup> year-on-year change, January – April 2020; <sup>d</sup> seasonally adjusted, February – April 2020

Source: Census and Statistics Department, HKSAR