

# BACK TO BUSINESS

COMMENT

## Time to make HK a truly global capital markets hub

**The government should ease regulations, offer better education and refine punishment system**

Richard Harris

Asian financial markets on a Monday morning are as dull as a blackout at an actuaries' convention. What trading there is, even in Hong Kong, is thin and typically follows the direction Wall Street was headed in when it closed the previous Friday. Trading on stale sentiment creates a constant risk of reversal when the first real direction for the day comes from the deeper and more liquid London market.

In an era of 24/7 communications, it is an anachronism for trading to be so hamstrung.

A big part of the problem is that stock markets are still seen through the prism of a need for national champions. The reality is that international investors need a few big exchanges around the world that provide continuous weekday trading for the securities of the most globally significant companies – the likes of Daimler-Benz, General Electric, HSBC, Microsoft, Royal Dutch Shell and Siemens.

London and New York are the clear financial hubs of Europe and the Americas. Asia is the logical place from which to bridge the 24-hour trading gap and we must ensure that the world's third hub is Hong Kong.

The basic arguments are clear. Tokyo and Shanghai are largely domestic and do not have the right infrastructure for global trading; Singapore's hinterland is not as dynamic as ours, which

will soon claim the crown of the world's largest economy (it is just a matter of time and mathematics).

But Hong Kong has huge work to do before it takes the prize. We cannot force ourselves to be the third hub and we need proper policy direction to help us look the part.

The government did set up the ineffectual Financial Services Development Council using taxpayers' money to advise them, but it looks more like a bankers' luncheon club. So far, their ad-



**The [Hong Kong] authorities have two success stories to tell that show they can innovate**

vice has been lame, in one case suggesting tax breaks for, er, bankers. A senior independent professional might lead a more independent council, consulting a panel of experts and professional analysts.

For too long, we have followed the Hong Kong diet – to let Singapore eat our lunch. As long as a quarter of a century ago, I was being wooed by Singapore's very persuasive economic development bureaucrats to move my

small business to the Lion City. They have cajoled, insisted and demanded that banks and other financial firms set up their Asian regional centres in the city state. They created a need and the industry responded. As a result, the pace of development of Singapore as a financial centre in recent years has far outstripped our own.

So how to respond?

We should incentivise firms that commit to Hong Kong by granting accelerated regulatory permissions and other advantages. That may cause us to swallow some of our pride at being a bastion of free enterprise, but it is better than becoming a backwater.

The government could also establish an independent Finance University, raising the industry bar through practical post-graduate education.

And we should enhance our already world-class regulatory reputation. Like London, we need a super-regulator and reducing four regulators to one will encourage joined-up action and hopefully relax the overly strict "box-ticking" that so inhibits multiple entities.

Easier licensing could be traded off against a wider range of punishments. Enforcement by court case requires a very high burden of proof. The system of tribunals, staffed by independent professionals, should be extended using a demerit points system that penalises negligence or incompetence – rather like the driving points system. Hong Kong could become the leader in this area of jurisprudence, just as we were when we established the Independent Commission Against Corruption.

Markets will not be forced – but they can be nudged – into thinking of Hong Kong as the natural home of the third financial centre of the world. The authorities have two outstanding success stories to tell that show they can innovate – the Hong Kong dollar peg and the Tracker Fund. Creating both took knowledge, boldness and conviction. To secure Hong Kong's financial future, the third hub must be the third success.

Richard Harris has built investment businesses across Asia and is founder of Port Shelter Investment Management in Hong Kong



With proper policy direction from the government, Hong Kong can surely become the world's financial hub. Photo: Bloomberg