

# Hong Kong

## A Purposeful City with a Big Heart



# HKGolden50

- Independent, non-political, not-for-profit policy research organization
- Two **Core beliefs**:
  - (1) the **best 50 years** of HK are ahead of us, not behind us
  - (2) taking over the baton to make Hong Kong a better place is the **post-80's**, our most-educated generation.
- **Golden 6 years (2010-2015)**

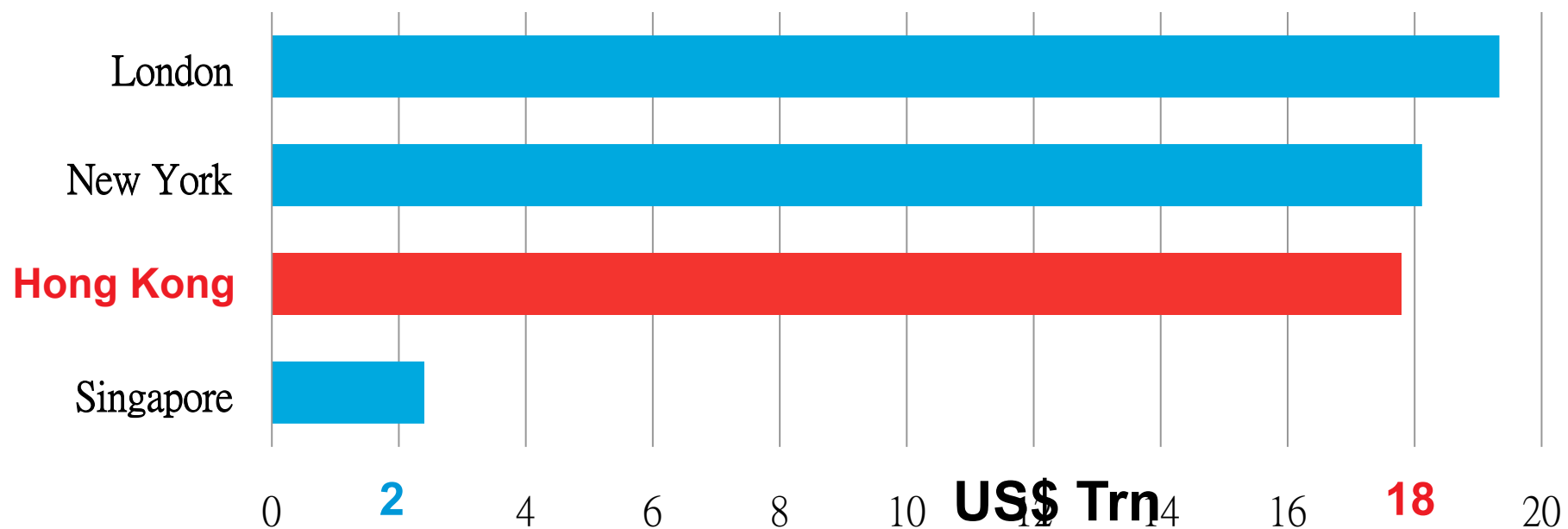


# HK: Right at the Heart of Asia



- Hong Kong is at the heart of Asia's economy

## 2015 Total Nominal GDP Within 4 Hours' Flight



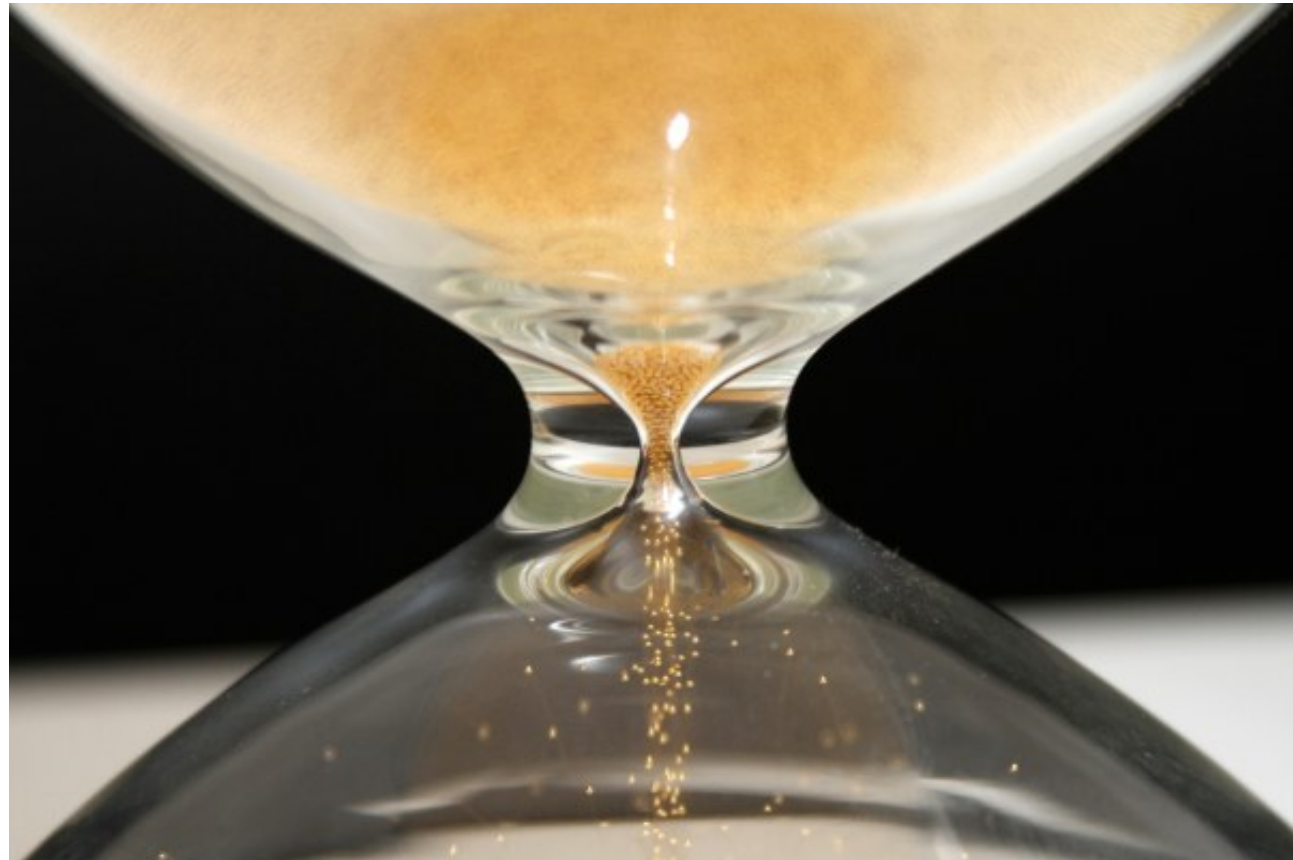
Source: CIA World Factbook, HKGolden50



# Hong Kong: Connecting **N.Asia** and **the West**



- **Hong Kong** is that “**Nib in the Hourglass**” between the West and N.Asia
  - **London**
  - **New York**



# Hong Kong's overnight visitor number will overtake London soon



2015	Hong Kong	London
Number of Hotel Rooms	73,846	142,200
<b>Number of Overnight Visitors</b>	<b>26,686,000</b>	<b>28,820,000</b>
Number of Total Visitors	60,380,000	56,200,000
Number of Business Visitors	3,631,000	3,472,000
<b>Total Visitor Spending (HK\$ bn)</b>	<b>359</b>	<b>136</b>
<b>Number of Restaurants, 2013</b>	<b>14,100</b>	<b>8,000</b>
Number of Museums, 2011	54	250

Source: HK Tourism Board , UK ONS, London & Partners, PwC

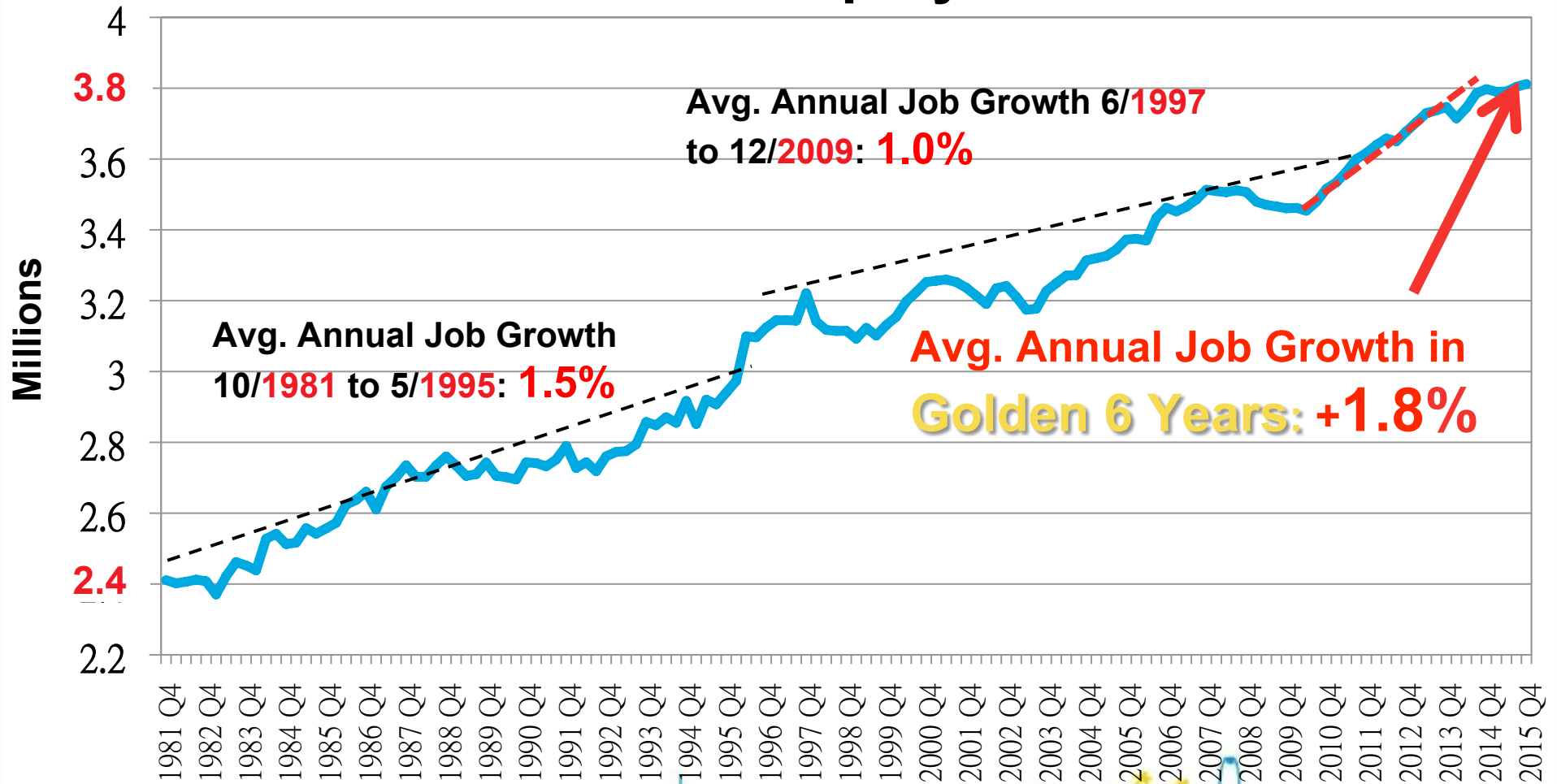


# Hong Kong is Going Through A Second Growth Spurt



# Fastest Job Growth on Highest Base

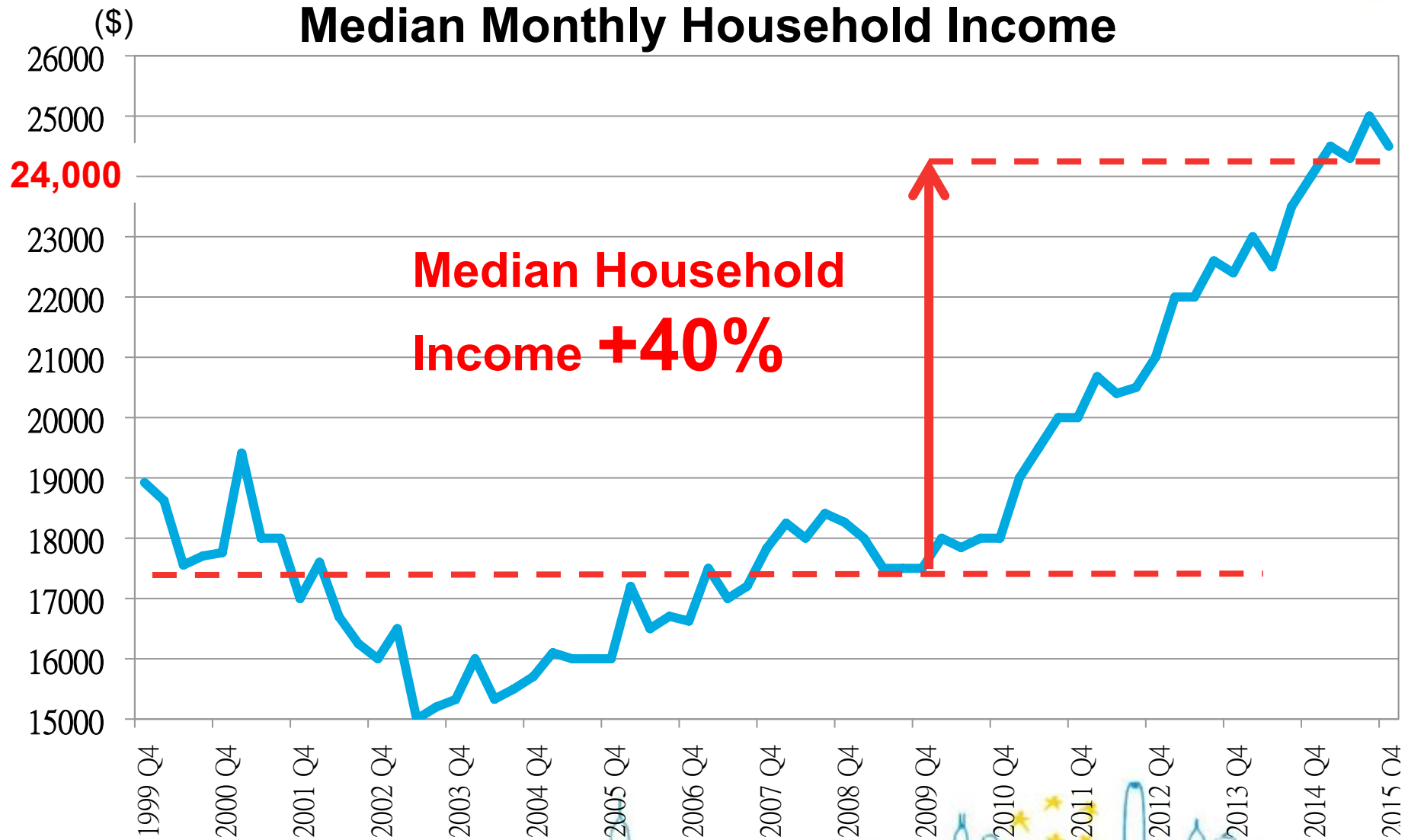
## Number of Persons Employed



Note: For the sake of consistency, the analysis excluded the period 6/1995 – 5/1996 due to methodological changes.

Source: Census and Stat. Dept.

# Median Household Income increased **40%** in the **Golden 6 Years**



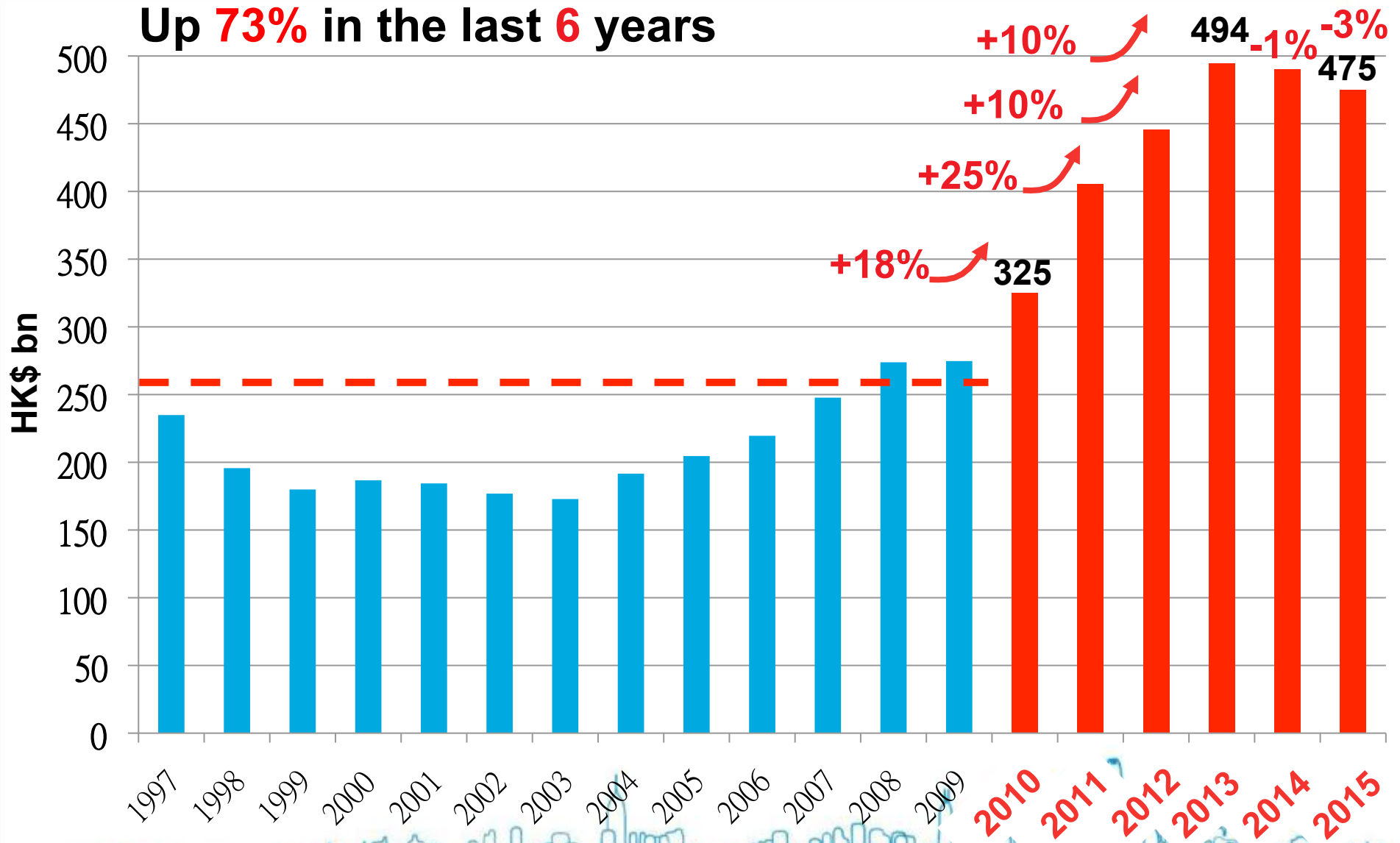
Source: Census and Stat. Dept.



# Record Retail Sales



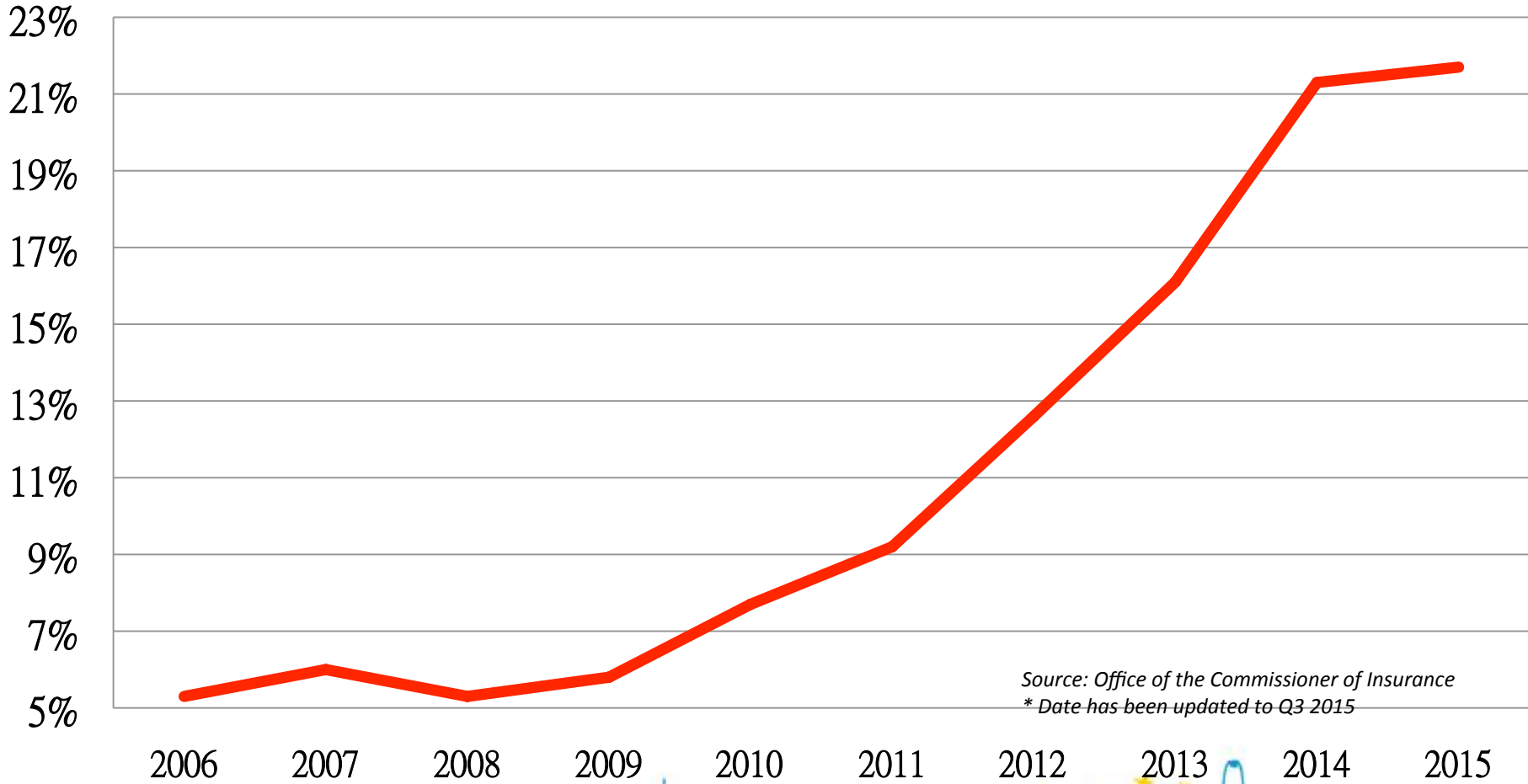
Up **73%** in the last **6** years



Source: Census and Stat. Dept.

# Healthcare: can easily be HK's 5th Pillar Ind

## % Insurance purchased by Mainlanders in HK

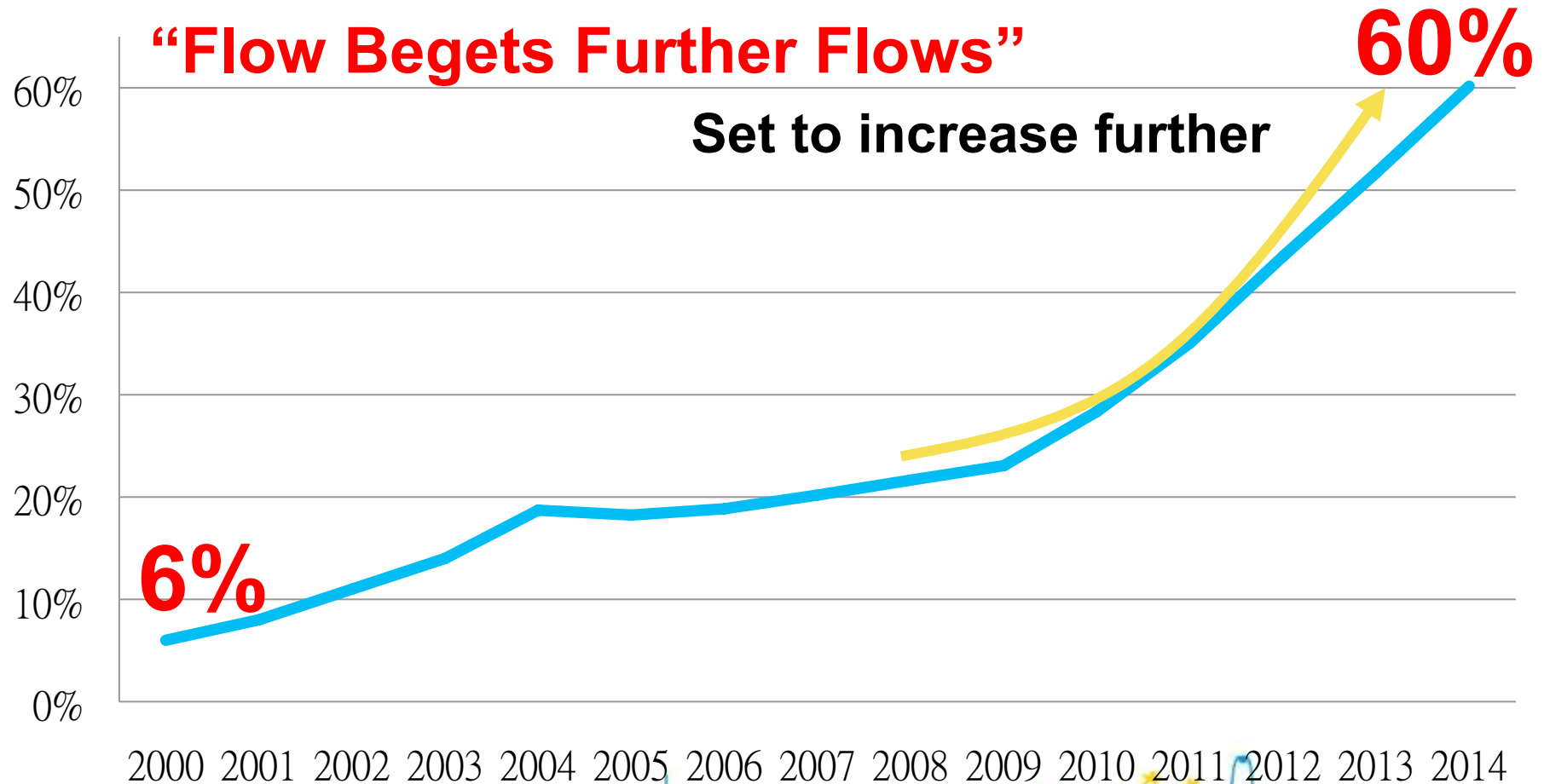


Source: Office of the Commissioner of Insurance  
\* Date has been updated to Q3 2015



# One Country, One Market

## “China-to-HK” / “HK-to-China” Trips Ratio



Source: Hong Kong Tourism Board, Chinese National Tourism Authority

# Stock Market is huge

Economy	Stock Market Value as GDP%
<b>Hong Kong</b>	<b>1,500%</b>
USA	130%
UK	130%
Singapore	140%

Remarks: calculated on 22<sup>nd</sup> May  
Source: World Bank, Market Watch



# Forbes Global 2000: Top Banks



	2015	2013	2011	2009
1	<b>ICBC</b>	<b>ICBC</b>	JPMorgan Chase	JPMorgan Chase
2	<b>China Construction Bank</b>	<b>China Construction Bank</b>	<b>HSBC Holdings</b>	Bank of America
3	<b>Agricultural Bank of China</b>	JPMorgan Chase	<b>ICBC</b>	<b>ICBC</b>
4	<b>Bank of China</b>	<b>HSBC Holdings</b>	Citigroup	Banco Santander
5	JPMorgan Chase	<b>Agricultural Bank of China</b>	BNP Paribas	Wells Fargo
6	Wells Fargo	<b>Bank of China</b>	Wells Fargo	<b>HSBC Holdings</b>
7	<b>HSBC Holdings</b>	Wells Fargo	Banco Santander	BNP Paribas
8	Citigroup	Citigroup	<b>China Construction Bank</b>	<b>China Construction Bank</b>
9	Bank of America	BNP Paribas	<b>Bank of China</b>	Barclays
10	Banco Santander	Mitsubishi UFJ Financial	<b>Agricultural Bank of China</b>	<b>Bank of China</b>

Source: Forbes Global 2000 List



# HK = Gateway + Showcase: No. of new brands entering HK = 2x (SH+BJJ)

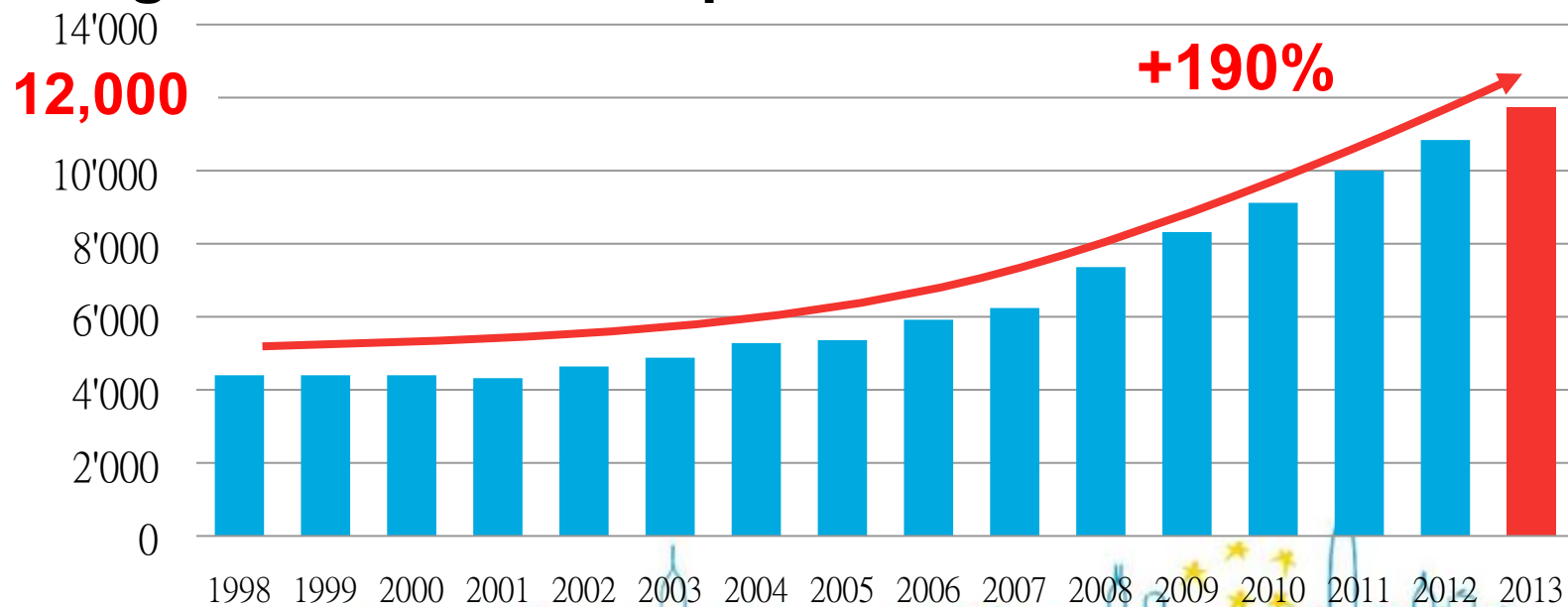


# Hong Kong: Free and Fair city, loved by every global citizen → UNisation



- HK already has the building blocks for a World City
- A huge economy, without globally accepted laws, systems, diverse and tolerant culture, will not be enough to produce a World City (Tokyo, Shanghai)
- Flow beget flows → **Not another Chinese city** but...

## Registered French Expatriates in HK



Source: French Consulate

# IMD World Competitiveness Ranking



Ranking (2016)	Country / Region	Ranking (2015)	Change
<b>1</b>	<b>Hong Kong</b>	<b>2</b>	<b>↑ 1</b>
2	Switzerland	4	↑ 2
3	USA	1	↓ 2
4	Singapore	3	↓ 1
5	Sweden	9	↑ 4
6	Denmark	8	↑ 2
7	Ireland	16	↑ 9
8	Netherlands	15	↑ 7
9	Norway	7	↓ 2
10	Canada	5	↓ 5





# IMD World Competitiveness Ranking



Ranking (2015)	Country / Region	Ranking (2014)	Change
1	United States	1	-
<b>2</b>	<b>Hong Kong</b>	<b>4</b>	<b>↑ 2</b>
3	Singapore	3	-
4	Switzerland	2	↓ 2
5	Canada	7	↑ 2
6	Luxemburg	11	↑ 5
7	Norway	10	↑ 3
8	Denmark	9	↑ 1
9	Sweden	5	↓ 4
10	Germany	6	↓ 4



**174 Years of Melding Eastern  
Values with Western Systems =  
World City of Hong Kong**



# (1) Self-reliant & Flexible

- Confucian values
- History as a colony: could expect no handouts; make our own way; a “Chartered City”
- Milton Friedman: “...Hong Kong has been a haven for people who sought to make the most of their own abilities”
- Spend within our means

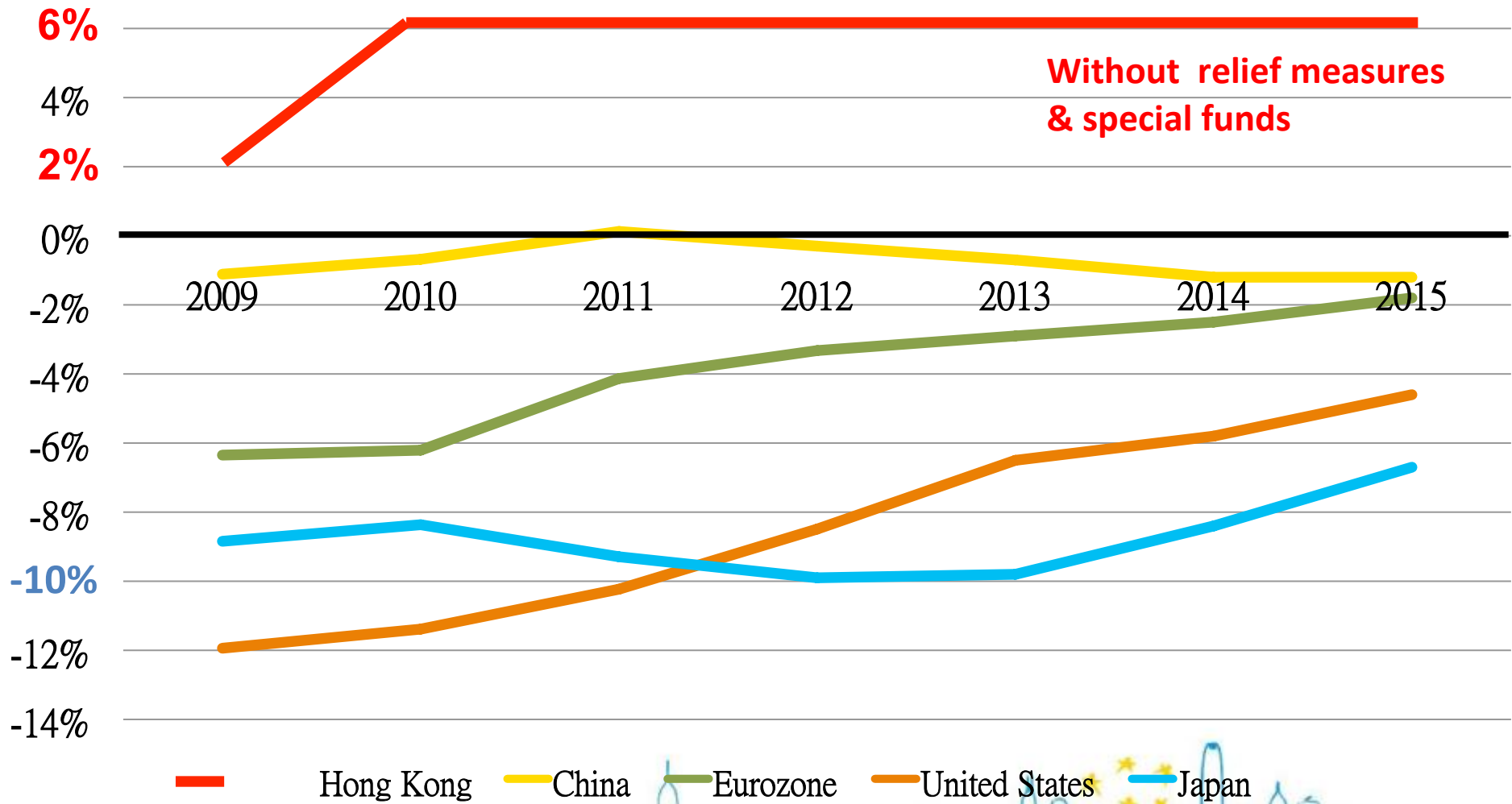


# Self-reliant & Flexible

- **HK: In the neighbourhood of the well-to-dos**
  - **4 out of the 10 richest** persons in Asia are from **HK**
  - UBS & PwC study (2015): **300 out of the 500 Asian billionaires** are from **China** → **+1** billionaire **every week** in the country → **60** are from **Hong Kong**
  - Globally, out of the **917 first-generation billionaires**, **36%** are from **Asia, overtaking Europe** for the 1<sup>st</sup> time
  - **Asian billionaires** are on average **10 years younger** than those in the US and Europe.
  - **US** accounts for **47%** of global billionaires, but is **expected to be overtaken by Asia in 5 to 10 years**
- Korean War: proof of **self-reliance, flexibility and resilience**

# Structural Growth → Must invest in HK Inc.

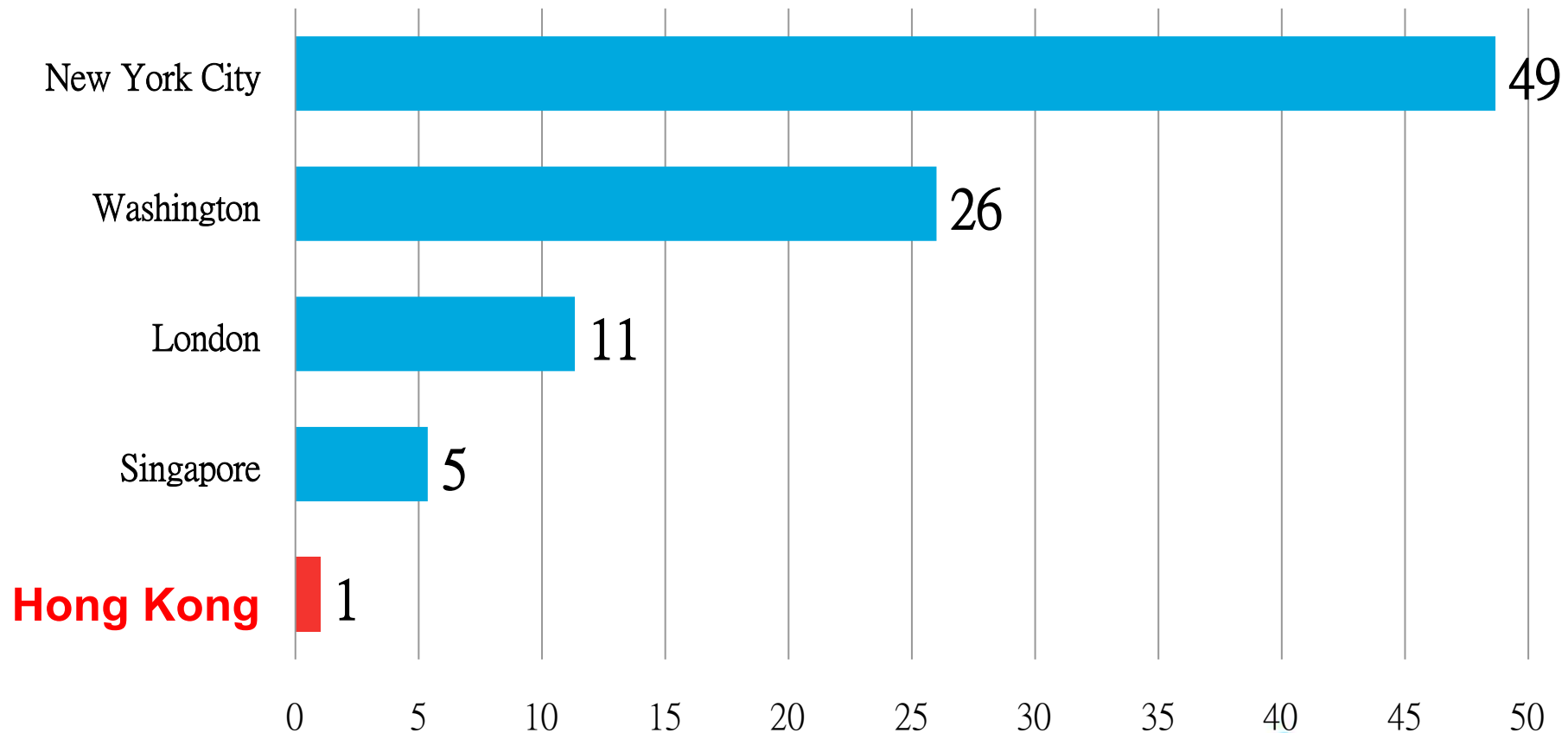
## Fiscal Surpluses / Deficits (% GDP)



Source: OECD, Census and Stat. Dept.

## (2) Efficiency – Time is Money; Train delays only occur 0.3% of the time

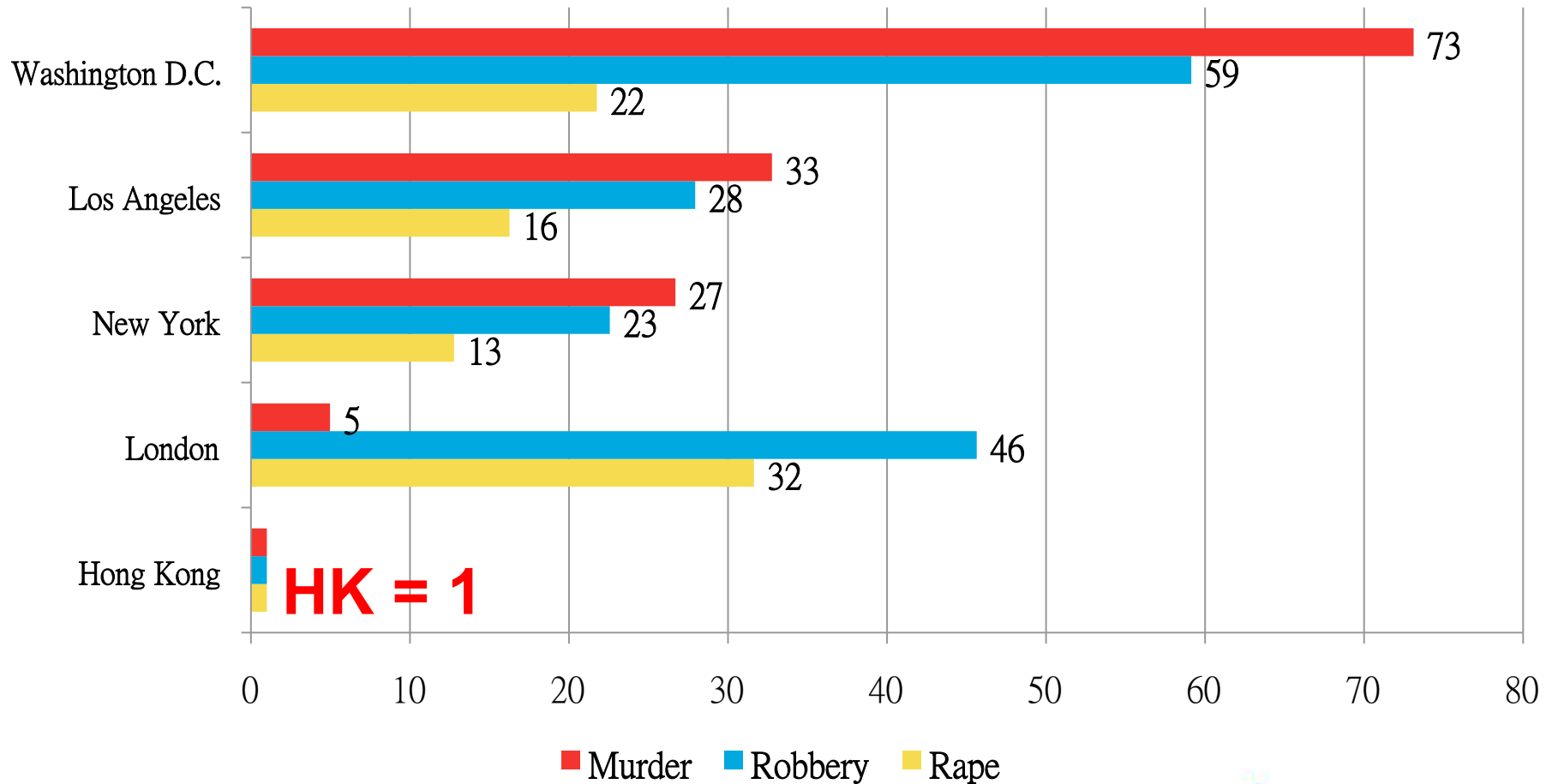
### Occurrence of Metro System Delays - As Multiples of Hong Kong



Source: NYC MTA, Transport for London, SMRT, MTR

# (3) Peaceful Society: Safest Metropolis in the World

## Per Capita Crime Rates as Multiples of Hong Kong



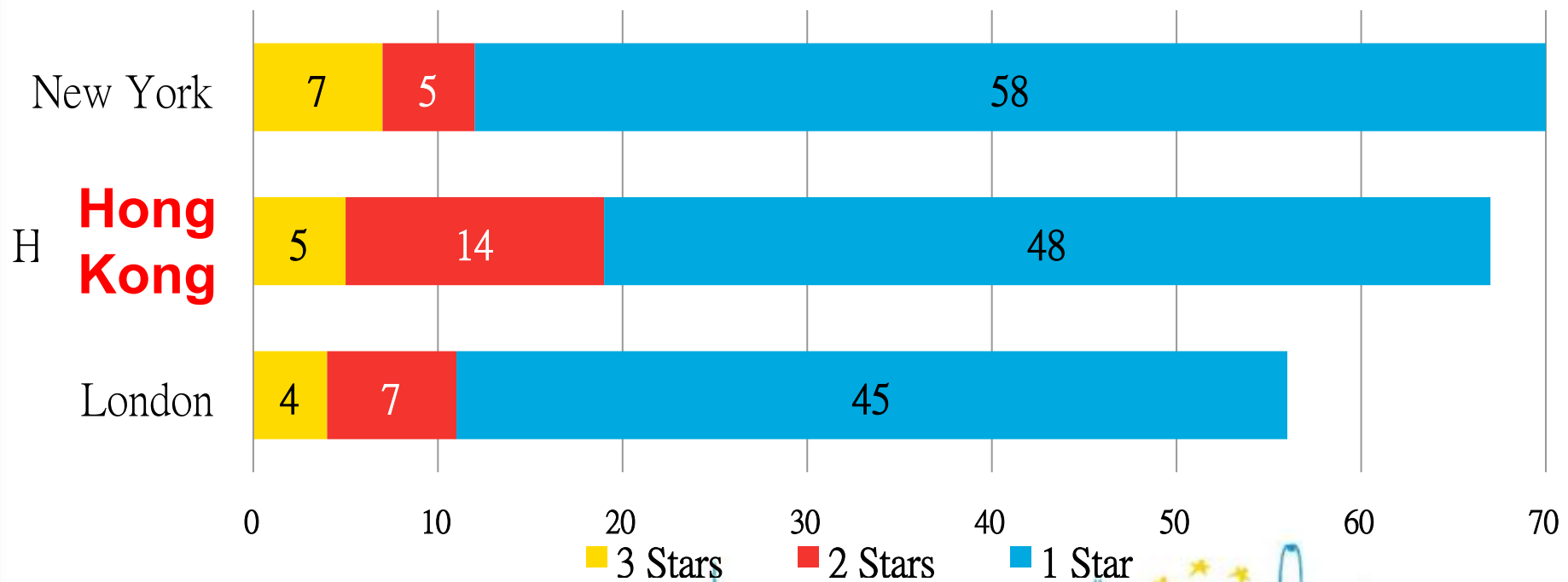
Source: MPDC, LAPD, NYC.gov, London Met Police, HK Police; 2011 figures



# (4) Food Lust

- Michelin, “the quality of Hong Kong restaurants is **comparable to New York City...**”
- Total Michelin stars: **91(Hong Kong) > 84(Paris)**

### Number of Michelin Star Restaurants in 2015



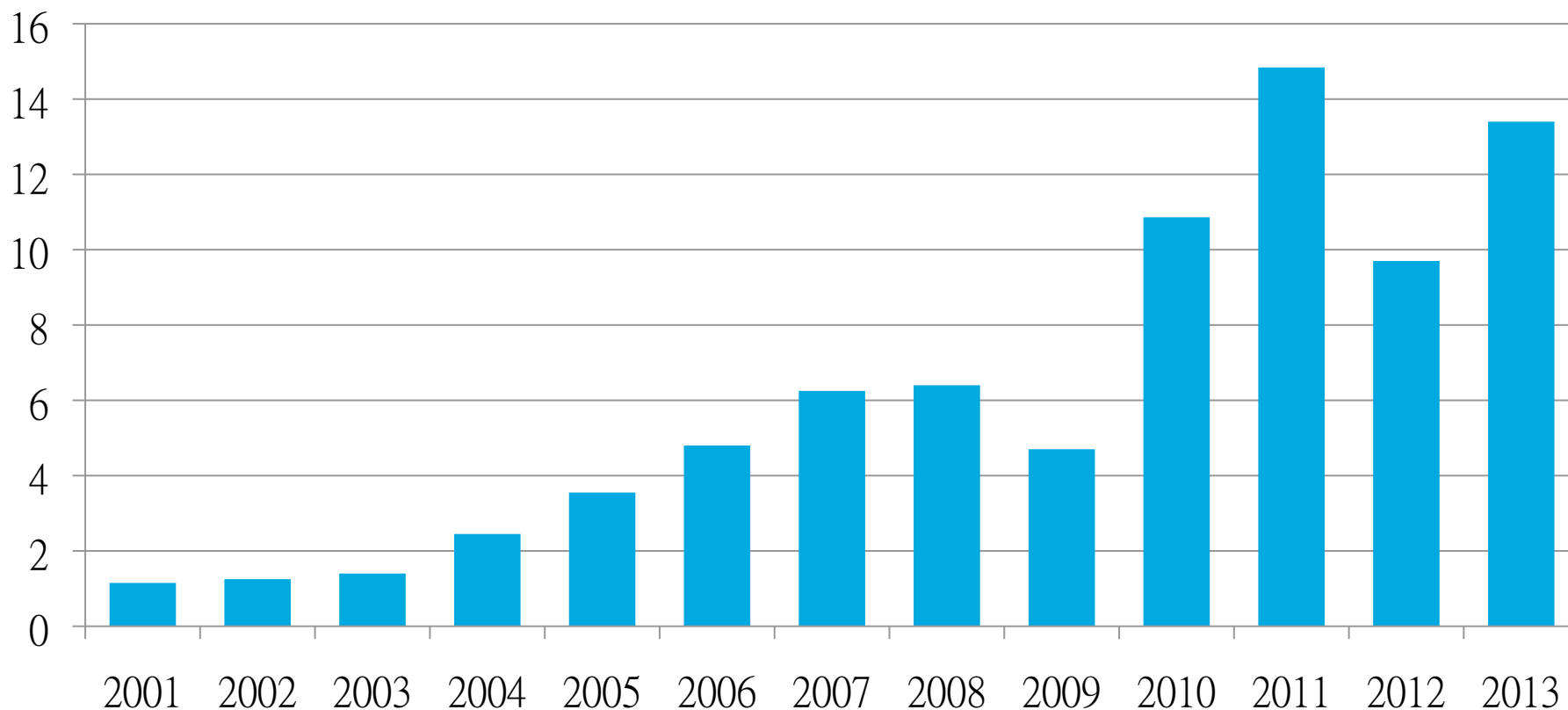
Source: Michelin Guide



# (5) Art-Fest: Auction Sales increased by 12x in 10 years

HK\$ bn

### Christie's & Sotheby's Combined Auction Sales in HK



International galleries choose to station in Hong Kong: Gagosian Gallery, White Cube...

Source: Christie's, Sotheby's



# Art Fest: The Most Popular in the World

	<b>ART HK 2012</b>	<b>London Art Fair 2012</b>	<b>Frieze Art Fair 2012</b>
<b>Attendance</b>	<b>67,000</b>	25,000	60,000
<b>Number of Exhibiting Galleries</b>	<b>266</b>	120	175
<b>Number of Participating Countries</b>	<b>38</b>	Mainly British	N/A

Source: ART HK, Art Basel, London Art Fair, Frieze Art Fair



# (6) Stock Market is Huge

Economy	Stock Market Value as GDP%
<b>Hong Kong</b>	<b>1,500%</b>
USA	130%
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Singapore	140%

Remarks: calculated on 22<sup>nd</sup> May  
Source: World Bank, Market Watch



# (7) Rule of Law is our Religion

- 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 HK is built on consistency of judgements for **well over a century**
- **2015 Hui/Kwok...**+ Lessons from Prada
- **2015 Lowest crime rate in 36 years!**



# Rule of Law – well trusted by Everyone Everywhere

- All the **largest companies in China (bar Baba)** are now listed in Hong Kong
- Lesson from **Prada**
- **Alibaba** IPO – the largest IPO in the world 2013 (US\$100bn market cap) is turned away; belief in equal rights of shareholders cannot be compromised
- Edward **Snowden**



# Best All Round + Safest + Fairest Asian City



## → Most Trusted / Reliable IFC

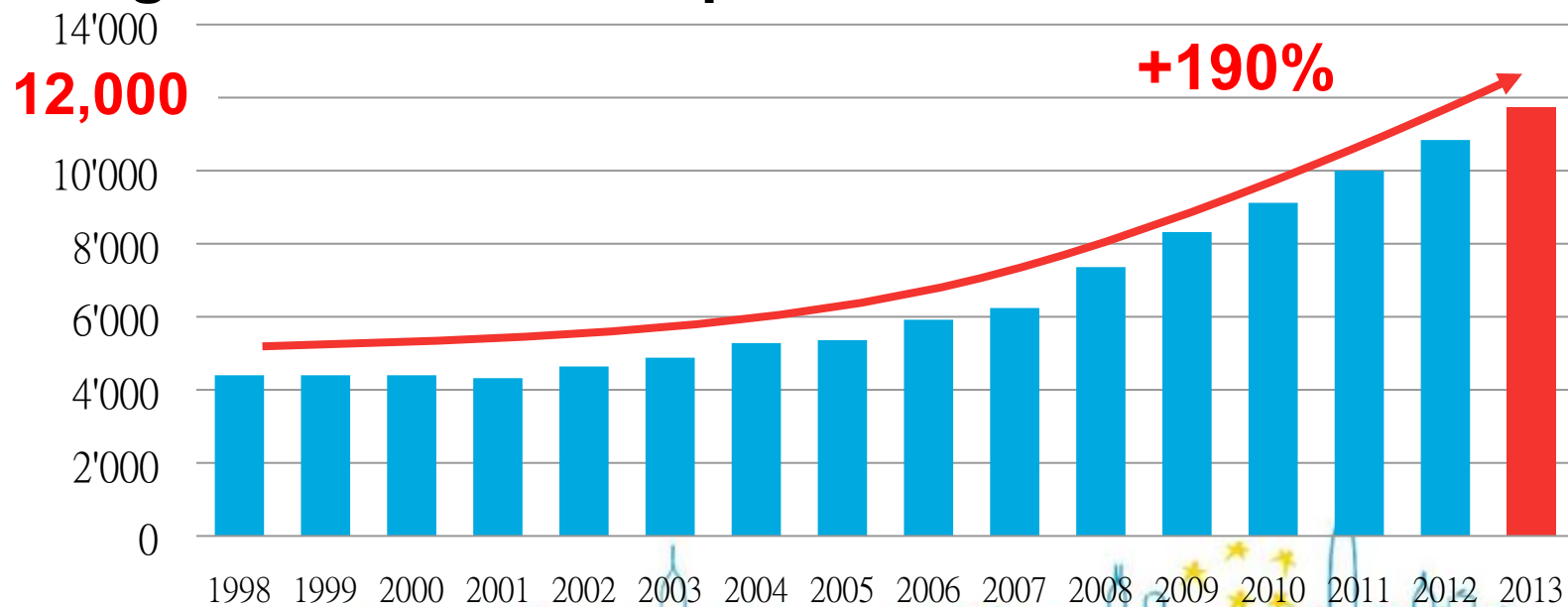
- **General Excellence** → Peaceful / Take-for-granted Living; Equality / Level Playing Field (“ladies night” – deemed discriminatory)
- **Most Fair, Most Neutral, Most Law-Abiding Asian City: (1) Lowest Crime Rate in 36 years (2) World Bank Governance Indicators, Rule of Law**
  - (i) Historic High (2016: **95.2**, 1996: **68.4**)
  - (ii) **14th in 215 Jurisdictions** (US 22nd; UK 13th; Japan 23; Germany 15; **China 120**; India 96; Singapore 11; Switzerland 5)

# Hong Kong: Free and Fair city, loved by every global citizen → UNisation



- HK already has the building blocks for a World City
- A huge economy, without globally accepted laws, systems, diverse and tolerant culture, will not be enough to produce a World City (Tokyo, Shanghai)
- Flow beget flows → **Not another Chinese city** but...

## Registered French Expatriates in HK



Source: French Consulate

# (8) Index of Freedom in the World -- Freest in Asia + 20 Years Econ F'dom



Ranking	Country/Region	Freedom Index
1	New Zealand	8.73
2	Netherlands	8.47
<b>3</b>	<b>Hong Kong</b>	<b>8.39</b>
...		
7	United States	8.30
...		
9	Japan	8.28
...		
18	United Kingdom	8.08
...		
<b>39</b>	<b>Singapore</b>	<b>7.67</b>
...		
<b>100</b>	<b>China</b>	<b>5.76</b>

Source: Fraser Institute





# Index of Freedom in the World -- 20 Years Highest Freedom

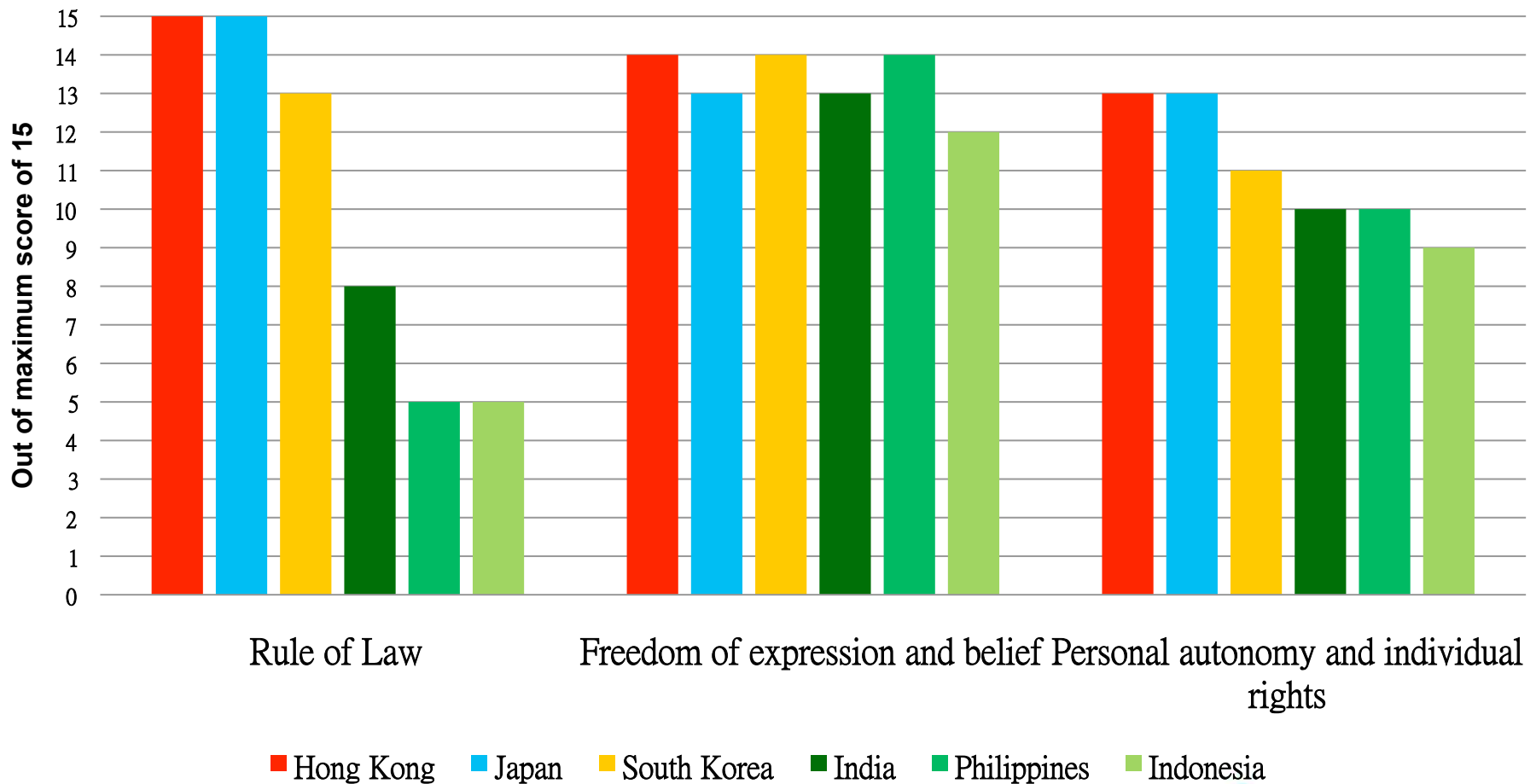
Ranking	Country/Region	Index of Economic Freedom
<b>1</b>	<b>Hong Kong</b>	<b>89.3</b>
<b>2</b>	<b>Singapore</b>	<b>88.0</b>
3	Australia	82.6
...		
10	United States	76.0
...		
14	United Kingdom	74.8
<b>17</b>	<b>Netherlands</b>	<b>73.5</b>
...		
24	Japan	71.8
...		
...		
<b>136</b>	<b>China</b>	<b>51.9</b>

Source: The Heritage Foundation



# (9) Freedom: High on **Substantive** but Low on **Procedural Democracy**

## Civil Liberties Indicators

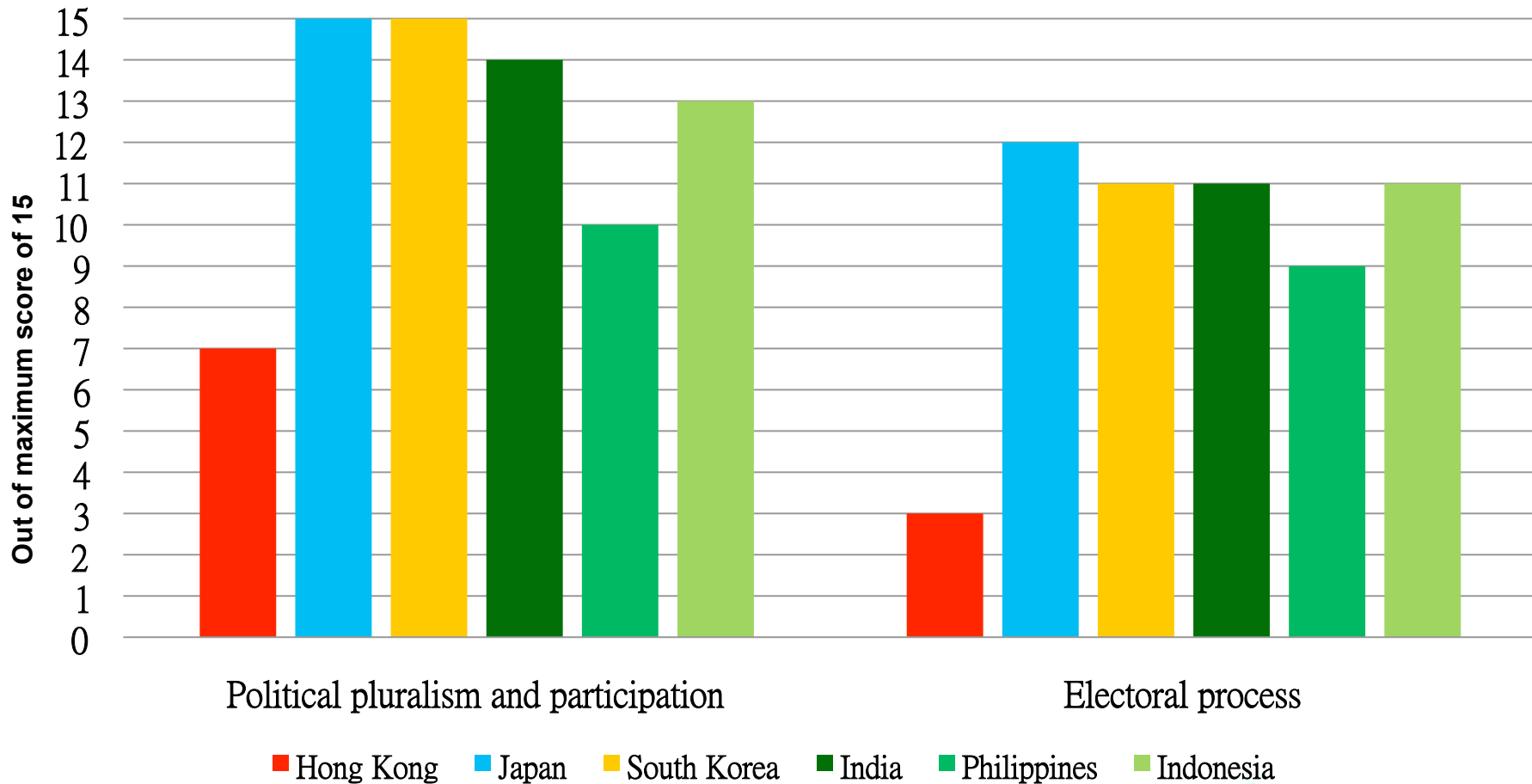


Source: Freedom House



# High on **Substance** but Low on **Form**

## Political Rights



Source: Freedom House



# Problems? Yes! Mostly Mindset

- **(I) Making PERFECTION HK's Worst Enemy**
- -HK's myriad successes are built on **“Start/Try => Scale Up => World Class”** process:
  - Guangdong Manufacturing <= Cottage Industries HK
  - Largest IPO market <= Tsingtao Beer
  - Art Basel HK <= Art HK
  - Rmb Offshore Centre <= Trade settlement
  - No Harvard...



# We all want a Civil Society

- **Civil Society**

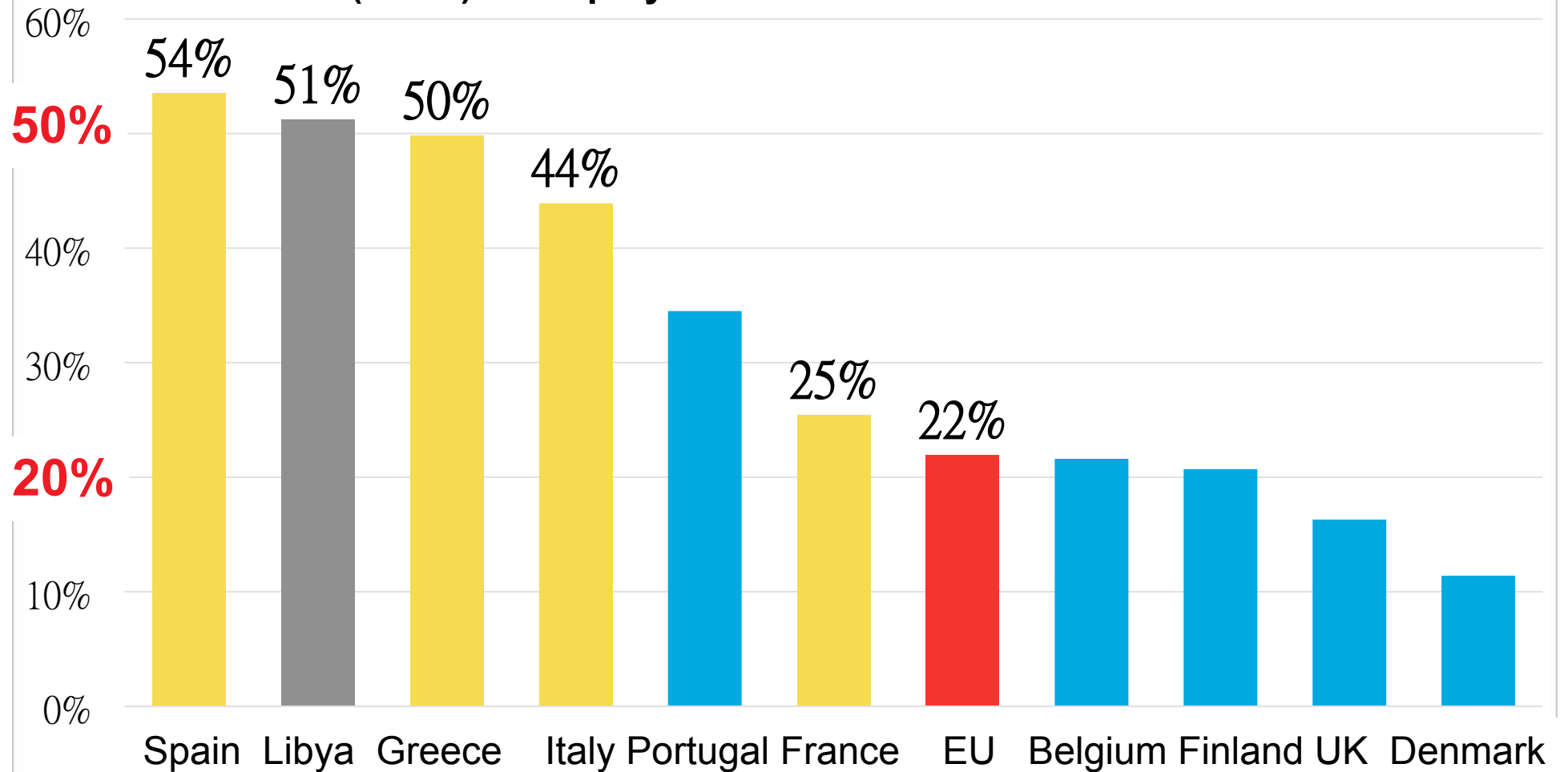
**1) Care for the needy (old, infirmed, weak & poor)**

**2) The younger generation can have a better life than our generation**



# The Sinking World...

2014 Youth (15-24) unemployment rate

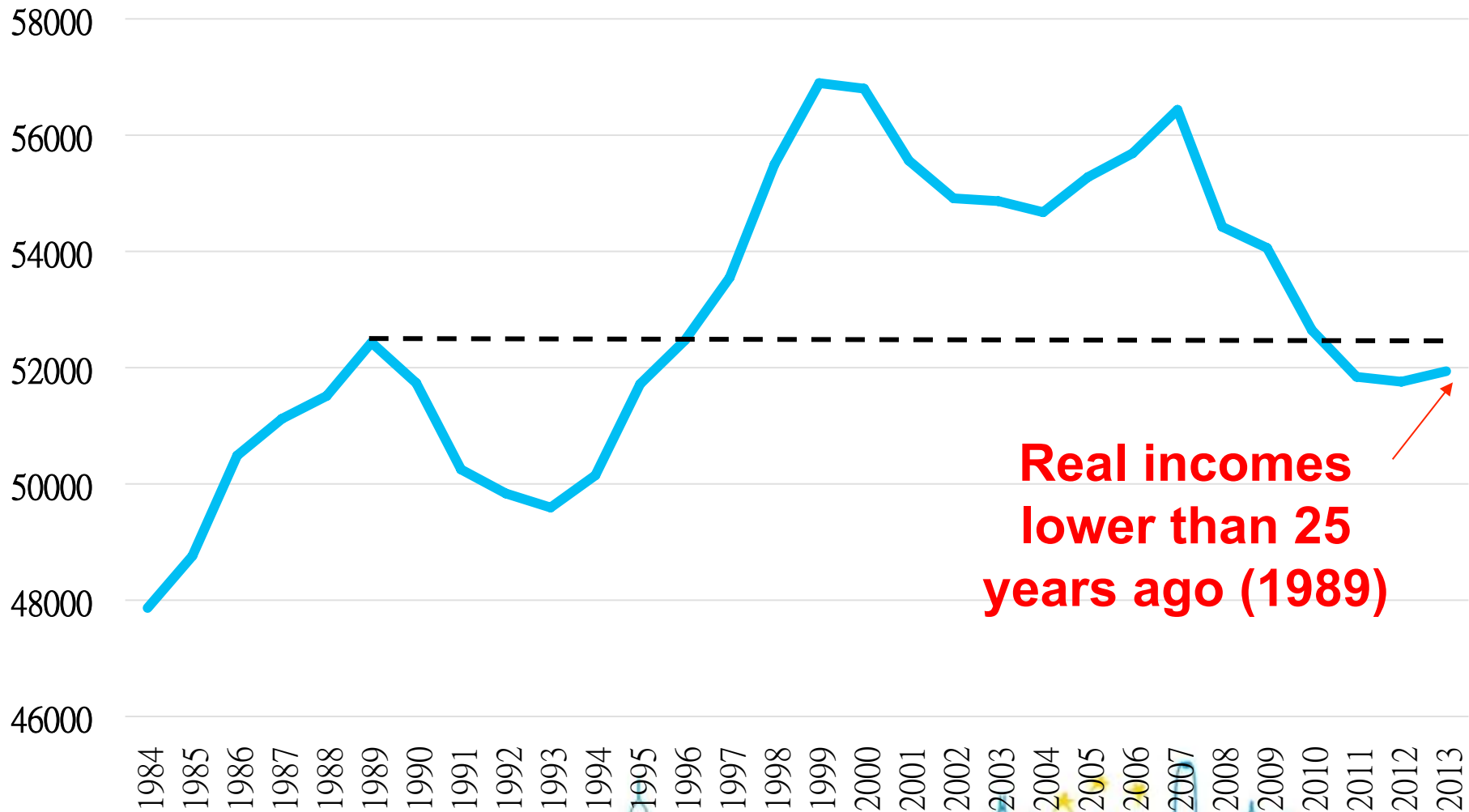


Remark: Libyan figure is in 2012

Source: EuroStat, World Bank

# The American Dream... or Nightmare?

## US Real Median Household Income



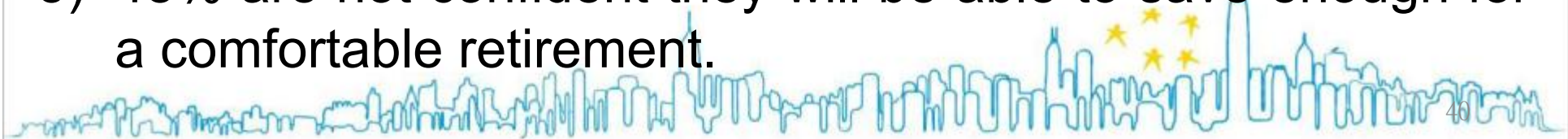
**Real incomes  
lower than 25  
years ago (1989)**

Note: Annual income (US\$), 2013 constant dollars.  
Source: Federal Reserve Bank of St. Louis

# In the **US**, “...The system is failing



- In its annual survey on **retirement planning** by **middle-class American** (income of US\$25,000 to US\$100,000) released in October, Wells Fargo found that:
  - 1) **37% say they would have to work until they die** because they will never be able to retire on their current savings;
  - 2) **34% say they will have to work until they are at least 80** – this marked a significant rise from 25% just two years earlier;
  - 3) **59% say their biggest worry every day is paying the bills;**
  - 4) 42% say both saving and paying the bills is not possible
  - 5) 48% are not confident they will be able to save enough for a comfortable retirement.





# (10) Compassion for Our Fellow Men



Global Ranking	Country/Region	World Giving Index Score	% Donating Money	% Helping a stranger
<b>19</b>	<b>Hong Kong</b>	<b>44%</b>	<b>64%</b>	<b>56%</b>
45	South Korea	36%	33%	45%
52	Taiwan	34%	43%	44%
85	Japan	26%	33%	25%
<b>114</b>	<b>Singapore</b>	20%	29%	24%
...				
<b>141</b>	<b>China</b>	13%	10%	26%
145	Greece	13%	5%	30%
145	Montenegro	13%	10%	23%

\*146 countries ranked in total

Source: CAF World Giving Index



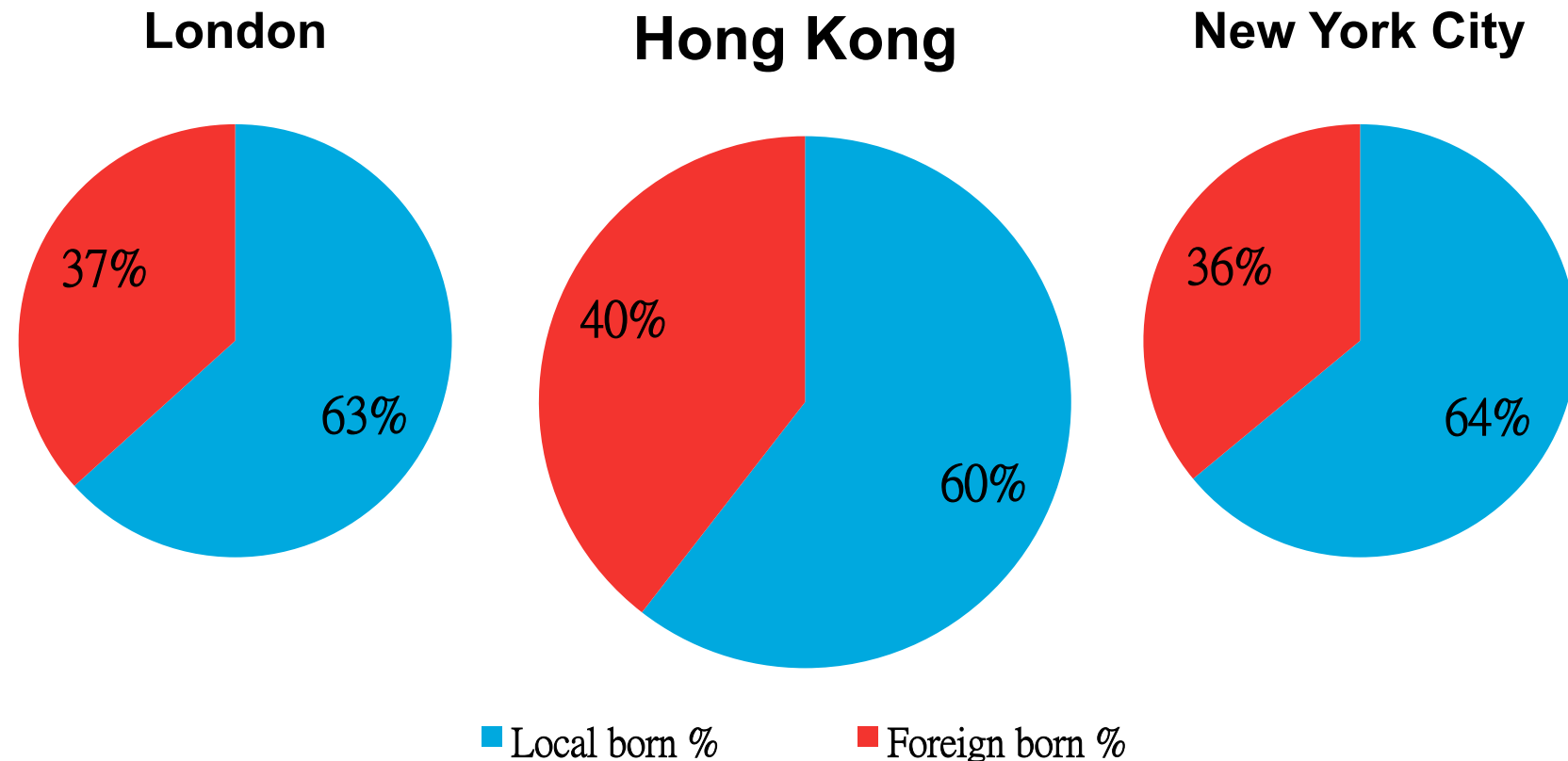
# Compassion – Because we have been down and out too...

- Confucian family tradition: **85%** of HK citizens would financially support their elderly parents; **69%** willing to live with them...
- Not a “fractional family”...who will leave family responsibilities with the state and pay up in taxes
- Population exploded from **600,000 to 2,400,000 in 6 years from 1945 to 1951** – without much social conflict
- **Asia’s “Melting Pot”** – **70% of 65+** citizens are born outside Hong Kong; Most of us are **refugees... TWICE!**
- We have been down and out too...



# Asia's Melting Pot

## Ratios of local and foreign born populations



Source: UK ONS, US Census Dept., HK CSD

# (11) Rising on Structural Opportunities

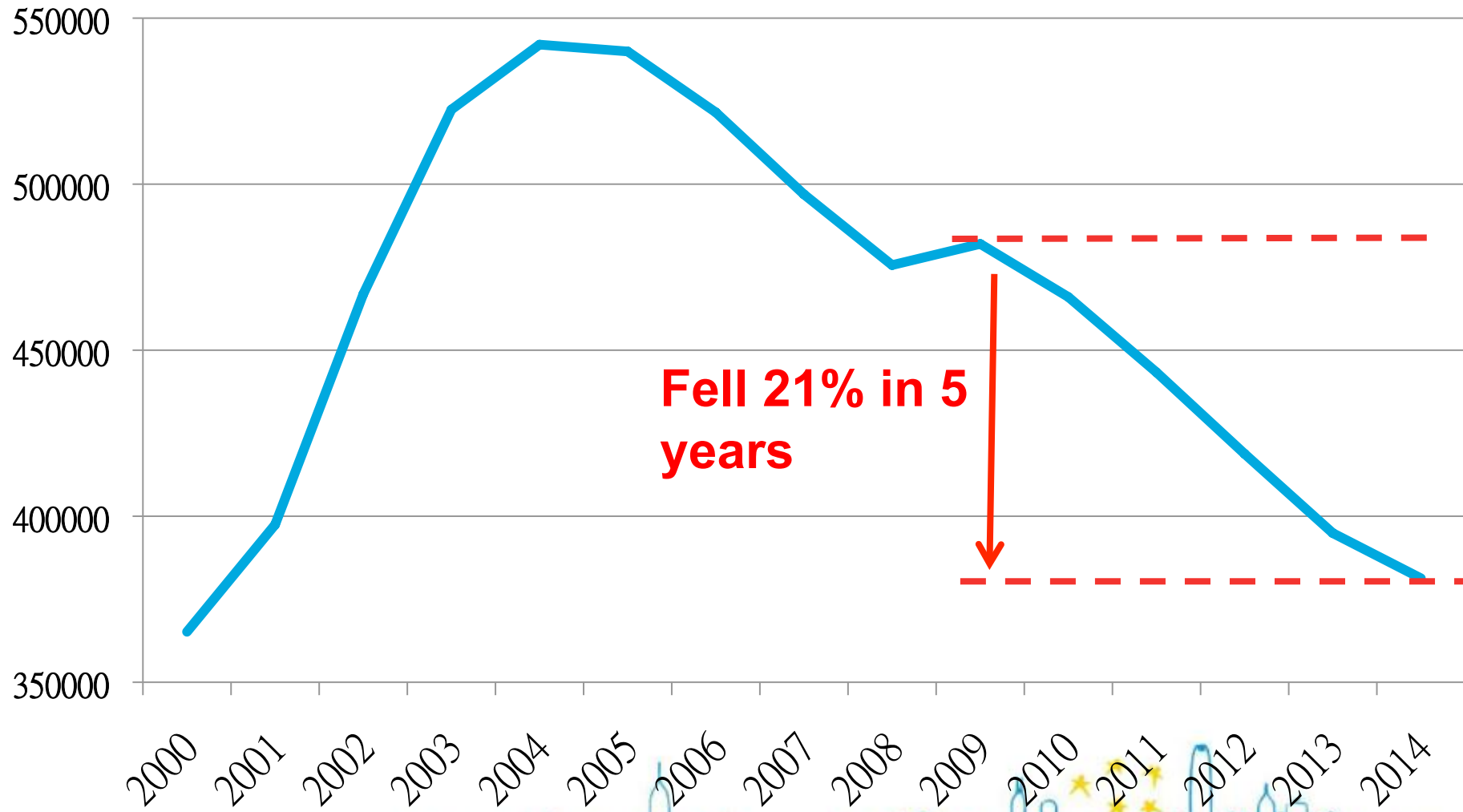
- (1) **Growth** opportunities are **Structural**, not cyclical
- (2) 2, now **3 Bottlenecks to unblock**
- (3) Lots of commercial and social software and hardware to build
- (4) **Spiritual capital**
- (5) An **"Outsized" Future**



# CSSA Beneficiaries **Fell 21% in Golden 5 Years**



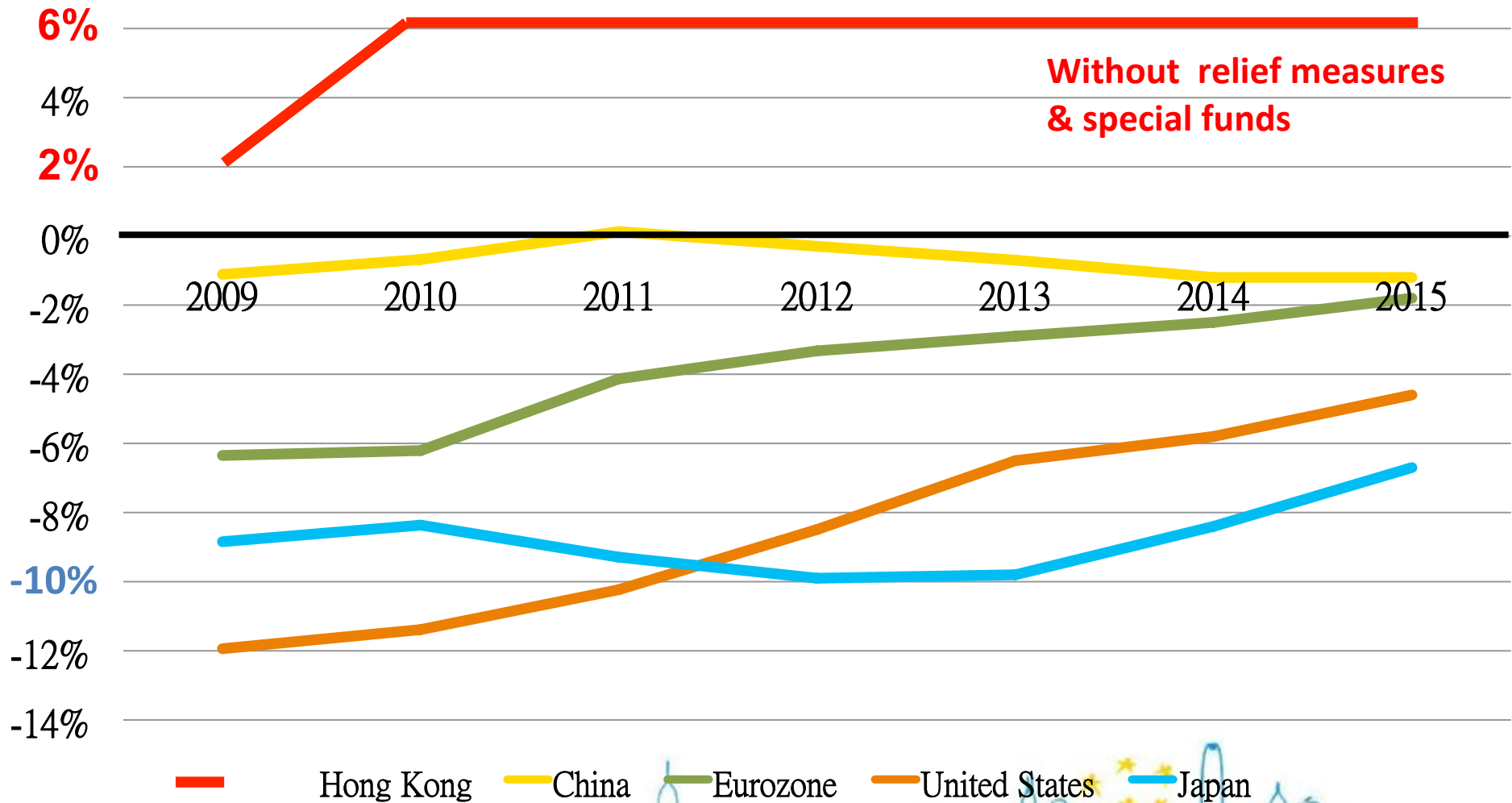
## No. of CSSA Beneficiaries



Source: Social Welfare Dept.

# Structural Growth → Must invest in HK Inc.

## Fiscal Surpluses / Deficits (% GDP)



Source: OECD, Census and Stat. Dept.

# Structural (more + wider)

- HK **rose** amidst **cyclical slowdown** of the global economy in the past 6 years → proven **ALPHA**
- **Structural Opportunities:** rise of China & Asia
- **(1) Only 49 out of all 660 (7%)** Chinese cities eligible for IVS; or 29% of cities with 1m+ population
- **HK Services** benefit from China's Growth, **Rain or Shine:** (1) Deficiency → use HK (IPO+formula milk)
- **(2) Widen Scope of services** → more and more high-value work eg Citic, AIIB, BAR, Arbitration...



# Structural (China breaking MIT)



- Is Heart Beat @160 per minute Good or Bad?
- When China breaks the Middle Income Gap =>
- HK will see another structural growth spurt...
- A High-value Service Hub of China: (1) Growth of Middle Class 100m to 300m → demand more HK services (art/medicine/education/IPO + capital markets eg HKSE volume story; (2) New services eg AIIB, BAR, Offshore Rmb (true rates Vs PRC govt is both borrower and lender?) and myriad products springing up from these...
- HK asset market: one of the very few in the world not driven by credit and interest rates?





## (12) **Rising City** in a **Sinking World**



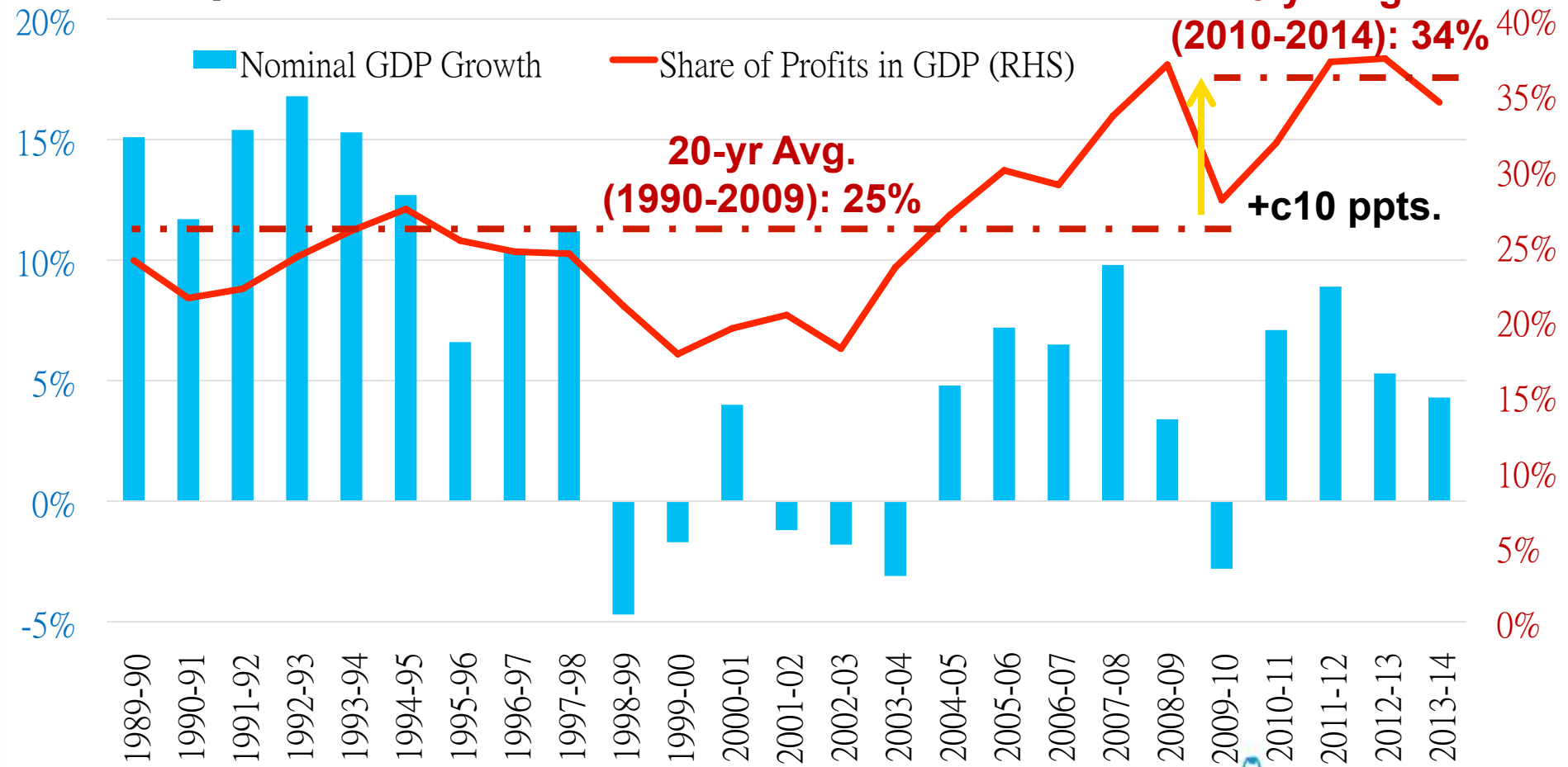
- **General Excellence** → Best in Asia
- **No fiscal pressure** → can easily cope with a slow growth + ageing world → rising welfare costs → rising taxes
- **Global Talents and Owners of Capital** → Drawn to HK: **Upward Mobility** + Safe **Tax/Legal Haven** + General Excellence
- **Locals** → **To Emigrate is to Trade Down...**



# Structural Opportunities → Enhanced Profitability



## Corporate Profits as % of GDP



Note: Profits are estimated based on profits tax receipts. For simplicity, the profit tax rate has been assumed to be 16.5% at the aggregate level.

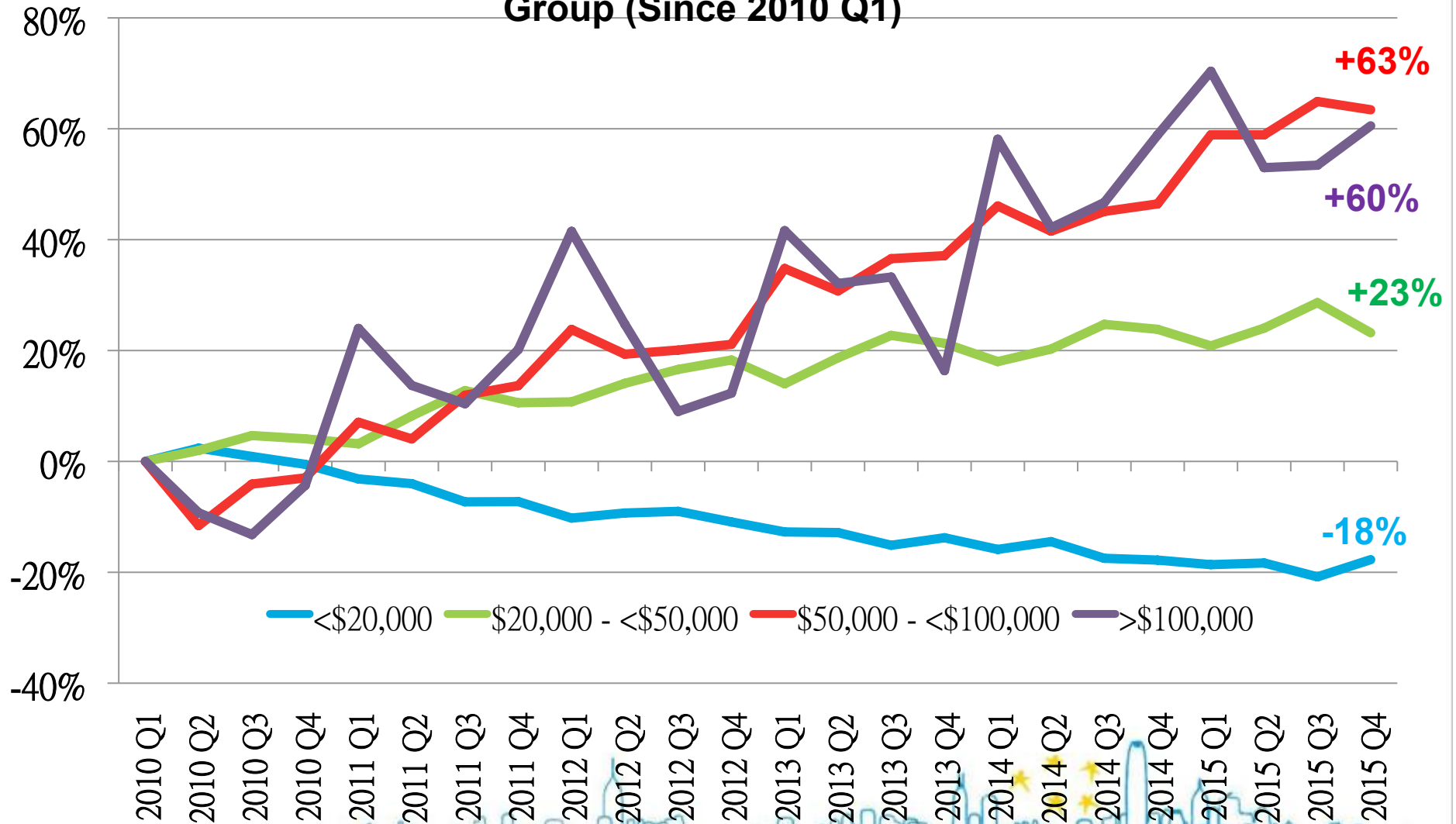
Sources: Census and Stat. Dept., HKGolden50.



**Fastest growth of Highest income groups → Trickle-down Effect improves income → Best Manifestation of Upward Mobility**



**Accumulated Change of Number of Households by Income Group (Since 2010 Q1)**

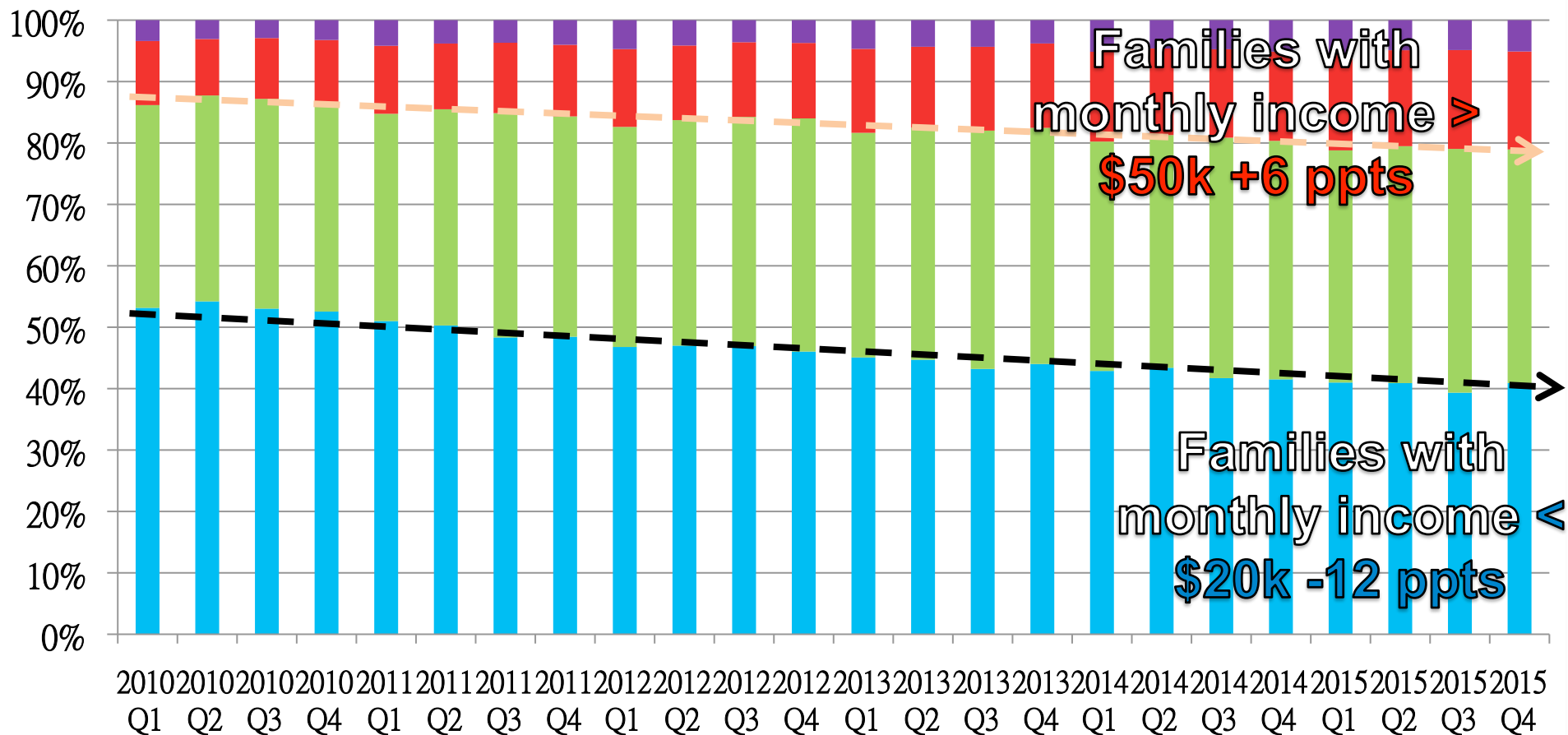


Source: Census and Stat. Dept.

# Improved Income Distribution → **Structural Growth** generates **Upward Mobility**



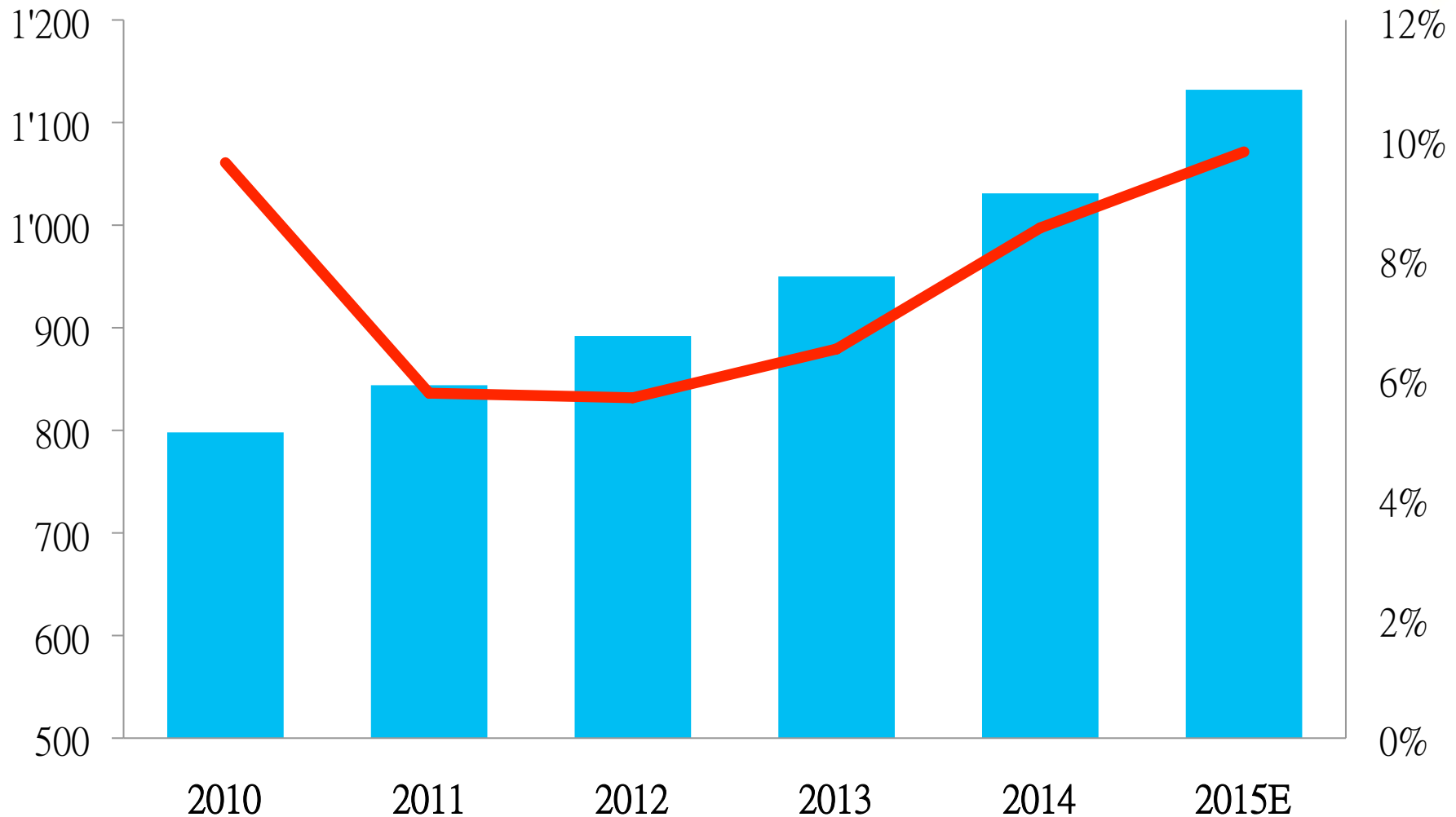
## Household Income Distribution



■ <\$20,000 ■ \$20,000 - <\$50,000 ■ \$50,000 - <\$100,000 ■ >\$100,000

Source: Census and Stat. Dept.

# Holders of No. 9 license are growing



■ LHS Holders of the no. 9 license

— RHS Annual Growth Rate

# Warner Bros & CMC formed a film production company in HK

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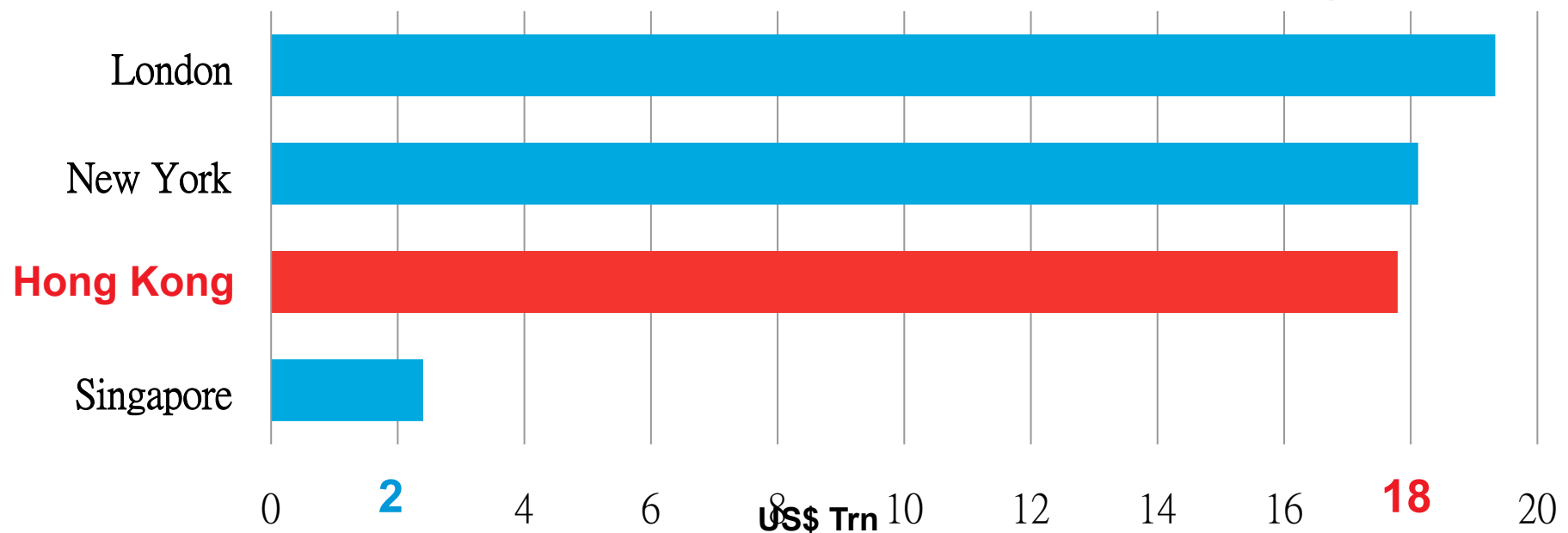


# HK: Right at the Heart of Asia



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## 2015 Total Nominal GDP Within 4 Hours' Flight



Source: CIA World Factbook, HKGolden50



# Questions Please?

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Thank you!

