



Oral evidence: [The UK's relations with Hong Kong: 30 years after the Joint Declaration](#), HC 649

Tuesday 16 December 2014

Ordered by the House of Commons to be published on 16 December 2014

Members present: Sir Richard Ottaway (Chair); Mr John Baron; Mike Gapes; Sandra Osborne; Mr Frank Roy

Questions 50-70

Witnesses **Caroline Wilson**, Consul General to Hong Kong, on behalf of UKTI, Hong Kong, and **Frances Moffett-Kouadio**, Trade Commissioner, UKTI, Hong Kong

This evidence was taken by video conference.

Q50 Chair: May I welcome you, Caroline, to this on-the-record session about UKTI? Can you outline Hong Kong's position in the financial services sector? Is it still the most important hub for China at the moment?

Caroline Wilson: It is, yes. It's China's international financial centre and with the internationalisation of the Chinese currency, the renminbi, if anything, Hong Kong is becoming more important. Other financial centres are, of course, growing as well and there are plans for Shanghai to grow and become more important. The sense here is very much that an economy as large and dynamic as China's requires several international financial centres. Shanghai will no doubt be one in time, but it is not yet on the scale of—nor has it the expertise, depth or liquidity of—Hong Kong. Hong Kong has some very real advantages in terms of the rule of law, the talent pool here and, of course, easy access to the region and other international markets. So Hong Kong is playing an incredibly important role.

Also, as China modernises and opens up, we are seeing that Hong Kong is being used, in effect, as a test bed for some of those key opening-up and financial reforms. It is always Hong Kong where the registered qualified foreign investor—RQFII—quotas are first allocated and, indeed, where initiatives such as the Hong Kong-Shanghai stock connect is piloted. That basically enables, for the first time, investors outside the mainland to access directly the Shanghai stock exchange. Although the initial quotas are quite small, it is a very important step in principle and one that could be replicated in time to other assets, such as commodities, fixed income and so on.

The signs are that Hong Kong is also being used as the first step for many mainland companies to globalise because Hong Kong simply has the framework, the expertise, the legal financial structures and the regulatory framework in place to facilitate the globalisation

and expansion overseas of Chinese companies. It is playing an incredibly important role in China's economic development at present. As I say, the signs are that that will continue.

Q51 Chair: You take the words out of my mouth. Do you think the trajectory is improving, so it will be still as dominant in 10 or 20 years time?

Caroline Wilson: I would love to know precisely what will happen in 10 to 20 years time, but the signs are that—part of this is about Hong Kong's strengths and competitive advantages, and part of it is about the mainland and how quickly the mainland improves its competitiveness and addresses issues around rule of law. It depends on both of those factors.

So far, we have seen, from Hong Kong's perspective, that the authorities are determined to retain their competitiveness and their high position in the global rankings. They have, for example, the Financial Services Development Council that is looking at what it can do to improve Hong Kong's competitiveness. Equally, there are risks and challenges and plenty of other competitors, so I don't think they can be sanguine. I don't think any financial centre can be sanguine about the future. They will have to work hard to retain that position.

The advantages that Hong Kong has are not ones that are replicated overnight or could be easily replicated by other centres. As you know, it takes quite some time to build up the rule of law, an independent judiciary and the kind of regulatory structures that we have here in Hong Kong, so I think those will certainly be enduring.

Q52 Chair: Turning specifically to the UK's position, how do UK businesses get on when trying to do business in Hong Kong?

Caroline Wilson: They get on extremely well. This is an open, transparent and competitive market; it is largely English speaking; the rule of law is very familiar to British businesses; and the Hong Kong people are very efficient. The culture of Hong Kong is business, so it is fair to say that if you can't do business in Hong Kong, you're probably not going to be able to do business very well anywhere.

Q53 Chair: So there are few hurdles at the moment?

Caroline Wilson: There are few hurdles. There are some hurdles, and those are the ones we are seeking to address. There are some hurdles around Government procurement, where we have already made some progress, but there are still a few challenges around the kind of companies that can qualify for Government contracts, and there are issues around the import of spirits. Duties are still very high on spirits, and there are other areas where the market could be better developed or where we would like improved access, but, generally speaking, there are few hurdles.

Q54 Mr Roy: Could you talk about the nations that are the main competitors to United Kingdom businesses? How are they perceived?

Caroline Wilson: Obviously, it depends very much on the sector. If you are looking at some of the biggest infrastructure projects here and some of the biggest high value

opportunities, on construction and engineering there are competitors from Japan, Korea and so on. In retail luxury goods, there are the French and Italians. There are plenty of competitors and their number is always increasing. Many countries are trying to export more, so there is plenty of competition. UK companies are holding their ground and doing very well, although I think that, in terms of exports, Germany still pipped us at the post on the most recent statistics, but we are ahead of France.

We would like to see more companies. Speaking from the perspective of the post and UK Trade & Investment here, we would like to see more British companies out here. Hong Kong still has over 50 million visitors a year. It might have a population of only 7 million, but it has over 50 million visitors a year, which is really significant. Many of those visitors are high spending. A lot are from the mainland. Despite Occupy Central, the number of tourist arrivals increased by 14% in October, so the domestic market here is very significant. It is also a shop window for the world. There are lots of opportunities for British companies, but yes, there is competition. In some cases, it is competition that we can work with, because, where companies from other countries have the prime contract, we can work on supply chains to get British companies into those supply chains. That is an area that we are now working on.

Q55 Mr Roy: UKTI identifies the Guangzhou-Shenzhen-Hong Kong express railway link as a high value opportunity for UK business. What notable contracts have UK companies been awarded?

Caroline Wilson: The rail sector is a high-value opportunity for British business, because they are going to spend anything from £1 billion to £2 billion annually on rail up until 2026, with a huge programme to expand the lines by 25% both in Hong Kong and up through the New Territories and across to the mainland. Yes, the link that you mentioned is also a high-value opportunity.

We have had a number of very significant business wins, some of which are subject to non-disclosure agreements. I am not at liberty to say anything now, so if I can, I would rather check with the companies concerned. Unless you're—some of them are public, of course. Frances can maybe suggest which ones.

Frances Moffett-Kouadio: Yes, in rail more generally, Arup and Laing O'Rourke are already working on construction projects for the MTR, the underground railway. Aedas, one of the architects, has designed the terminal for the high-speed rail link you were talking about. Below that there are other UK companies working in the supply chain. Looking forward, we think the prospects for UK companies are pretty good in the round.

Q56 Mr Roy: When you do come back on this, could I ask, specifically from a local point of view, if the steel industry has any rail contracts?

On the point about high-value opportunity, we know that there have been demonstrations since 2009-10 against the railway line. A village has been flattened and people are against the project on environmental grounds. Is it therefore a good idea to

describe it as a high-value opportunity? It does not seem to me to be a very high-value opportunity to those villagers and others who have demonstrated against it.

Caroline Wilson: Many of the British companies that have been working on this opportunity and on the airport and so on are actually working on the bridge, on sustainability issues and environmental impacts. We will look into it, but I would like to think that many of the British companies will have been working precisely on the areas of concern to those villagers.

I have been here for two years and I have not heard in recent years of concern over the project, which suggests that those concerns have been addressed, but we can certainly look into it further. On the contrary—there is a sense here that this is very much to be welcomed. It will bring more economic opportunities for people in Hong Kong and bring more business to Hong Kong.

An important part of the Hong Kong economy—I would not say Hong Kong is dependent on it—does rely on visitors from the mainland, and the rail link will of course help that. MTR, which is the company building the mass-transit railway, has a strict environmental sustainability policy. We can certainly give you more information on that if it would be helpful.

Frances Moffett-Kouadio: I would just add that “high-value opportunity” is very much internal UKTI language. It is not necessarily the way we portray it publicly.

Q57 Mr Roy: The language doesn’t actually stay internal; it is used externally. That type of language is read by the people who lost their homes and the hundreds of people who turned up in 2010 on the day of the contract and walked out in protest. I am trying to find out if using that type of language is damaging to UKTI.

Frances Moffett-Kouadio: Thank you.

Caroline Wilson: Noted.

Q58 Mike Gapes: I want to come in briefly on the rail issue. I note that you referred to MTR. Of course, MTR has come the other way. MTR will be the operator of Crossrail, because it has done the deal with Transport for London. Net, in terms of rail co-operation, is there not benefit to Hong Kong of gaining contracts in the UK, as well as the UK gaining contracts in Hong Kong?

Caroline Wilson: That’s one way of looking at it. Of course, both economies have open competitive tendering, so there is no suggestion of a cosy relationship. The fact is that MTR do have a very solid record—99.9% punctuality—and they are a very impressive operation. They have obviously convinced TfL that they are going to run Crossrail efficiently, which is of course great news, but it’s not thanks to any lobbying on our part because obviously, it’s an open and competitive process in the UK.

Mike Gapes: Crossrail is going to run through my constituency so I hope MTR are good.

Oral evidence: The UK’s relations with Hong Kong: 30 years after the Joint Declaration, HC

Caroline Wilson: They are excellent.

Q59 Mr Baron: I have two questions. There is a lot on the Chinese authorities' plate at the moment with regard to the economy. They are trying to shift the mainland economy away from investment-led growth to consumption. It's going to cause ruptures and it's going to be a volatile period. Longer term, it will be a better quality of growth, but can you tell me from your perspective how that is progressing, because it has big implications for the way British business looks to win contracts?

Caroline Wilson: Yes, well, we think it's very good news from a UK perspective, because as China moves up the global value chain and as they need more in terms of services, the UK is incredibly well positioned to offer those, particularly given that many British companies have a base here in Hong Kong. Indeed, Hong Kong has got some privileged relationships with the mainland—in particular with Guangdong—in terms of the Closer Economic Partnership agreement. That provides advantages for all companies established in Hong Kong, including British ones who are established here, to provide services to the mainland.

So I think the trajectory looks good, but there are obviously still lots of barriers to tackle. I should say that a very important focus of our work here in UKTI Hong Kong is to work with our mainland colleagues to exploit the synergies, whether it is looking at low carbon opportunities—specifically in the Pearl River delta region—the health care sector, smart cities and financial services, of course. There are lots of areas where we can collaborate and where we are working with them to maximise the opportunities.

Q60 Mr Baron: It should be very good news for British companies, because we are focusing on services, etc., but what is your assessment of how successful the Chinese authorities themselves are in progressing with this transformation of their economy? It is quite a major step for them. The markets are worried about headlining growth. That is going to fall, but the quality of that growth should improve over time. Do you have any feel as to what progress they are making with regards to that transformation?

Caroline Wilson: If you will forgive me, I will come back to you on that, because the remit of this inquiry is Hong Kong and I, and colleagues—specifically, the ambassador on the mainland, I know—will have views, and I am sure you would like to draw on his expertise to answer that. So, if I may, we will come back to you.

Q61 Mr Baron: Okay, that's fine, Caroline.

The Committee has heard that businesses in Hong Kong have come under pressure to publicly support the Hong Kong Government and oppose the protests. Have you heard similar reports? What are you picking up on the ground?

Caroline Wilson: Yes, we have heard some similar reports. Obviously, it is very concerning, because business should be left to get on with business and not be put under any political pressure, and we have expressed our concerns on this.

We have not heard any reports that any British businesses have suffered as a result of not coming out and supporting any particular political standpoint. We are obviously monitoring it very closely.

Q62 Sandra Osborne: Caroline, can you tell us whether investment and trade factors have a voice when the UK Government makes decisions about how to respond to political events in Hong Kong?

Caroline Wilson: It does, to the extent that I mentioned in a slightly different context. The environment in Hong Kong affects business. So it is incredibly important that there is a sound, sustainable and effective political framework in Hong Kong. Actually, 2017 and the opportunities that that offers for getting a legitimate mandate for the Chief Executive, which should enhance the ability of the Hong Kong Government to govern and implement their vision for the future, is something that business should welcome; it should be very good for business. So, if anything, our business interests in Hong Kong reinforce our interests in seeing political progress and political reform here. What I am saying is that it is not an either/or; they reinforce each other.

Q63 Sandra Osborne: So they don't put pressure on the UK Government to moderate the response to the lack of democracy?

Caroline Wilson: Businesses, you mean? Do businesses put pressure on us to moderate our response?

Sandra Osborne: Yes.

Caroline Wilson: Well, it is fair to say that businesses have different motivations; business people have very different viewpoints. I represent the Consulate-General on the British Chamber of Commerce and I regularly take part in their meetings. If you look at the recent paper that they submitted to the Hong Kong Government and to the Chief Executive in advance of this policy address, you will see that they have concerns about Government; they would like to see Government working more effectively.

So, many in business would like to see Government working more effectively and focused on their issues. There are others who would rather keep out of politics entirely, and no doubt would rather that we kept out of politics. So there are all different views in business, and I hope that you will be talking to some of them to hear directly from them.

Q64 Sandra Osborne: I think you have already confirmed that UKTI in Hong Kong and on the Chinese mainland work closely together, in co-ordination. Is that right?

Caroline Wilson: Yes, it is. Yes.

Q65 Mike Gapes: The paper we received from the UK Government says that "35% of total UK investment in Asia" goes to Hong Kong. Is there a competition between mainland China

and Hong Kong to attract British business, or would you say that Hong Kong is still pre-eminent as the gateway for the mainland?

Caroline Wilson: Sorry—is the competition between Hong Kong and the mainland?

Mike Gapes: Yes. Do British businesses still see Hong Kong as the gateway to investing in the mainland, or do they go there directly more?

Caroline Wilson: It really depends on the sectors. We certainly wouldn't say that Hong Kong is the—or the only—gateway, but the fact is that many businesses are reassured by the legal environment, the legal protection, the regulatory structures and the fact that this is a very competitive, easy place to do business. And it's still ranked No.1 in the Heritage Foundation's economic freedom index and is also very high in other rankings; I think it's No.7 in the World Economic Forum ranking. So, for all those reasons businesses like coming to Hong Kong, but some of course will invest directly in the mainland. Some will come via Hong Kong to the mainland. As I say, it very much depends on the sector.

But Hong Kong is also in a very strong position vis-à-vis the Pearl River delta. Again, that is another factor for companies that choose Hong Kong. Sometimes, it's not so much Hong Kong or the mainland, but south, east or north China; and if they go for southern China and the economic opportunities here, they may well choose Hong Kong, also as a good base to link in with Guangdong, Shenzhen and Quanzhou.

Q66 Mike Gapes: When we did a report in the last Parliament, we went to Shanghai. At that time, there was some fear that Shanghai might become pre-eminent and that Hong Kong would, over time, lose out. From what you're saying, that doesn't appear to have been the case. Is that correct?

Caroline Wilson: Yes, that's correct. The size of the Chinese cake—if I can put it that way—is growing, so all the business and financial centres stand to benefit from that. As I explained at the outset, Hong Kong has played a unique role in terms of China's opening up and liberalisation, and one that other centres can't play. The Shanghai-Hong Kong Stock Connect is an interesting example of collaboration between Shanghai and Hong Kong. While most people would say, yes, there is inevitably a degree of competition, we would say that such centres actually see more scope for working and growing together.

Q67 Mike Gapes: You made some reference earlier to the offshore renminbi market internationalisation. Can you say a little more about how UKTI has co-operated on that with the Hong Kong Government?

Caroline Wilson: The UK and Hong Kong have a London-Hong Kong forum on the internationalisation of the renminbi, which was launched by the Chancellor at the beginning of 2012. It meets on a six-monthly basis and looks specifically at developing products and services to assist in the internationalisation of the renminbi. It also looks at liquidity, payment and settlement issues. It is actually largely private sector-led, and the Treasury participates in that, but it is very much driven by what the market participants want. Increasing numbers of companies—not just financial services, but corporates—are involved in the forum and are

interested in the opportunities that the renminbi can offer. We have already seen some real benefits, some excellent initiatives and the launch of funds. One example of how we work on that in UKTI Hong Kong is with our colleagues on the mainland, assisting Chinese asset management companies to invest in the UK. We have seen specific successes there.

Q68 Mike Gapes: So can you quantify the benefit of that to the UK economy, or is it mainly of benefit to the Hong Kong and Chinese economies?

Caroline Wilson: No, we can very much quantify benefits to the UK economy. I gave the example of Harvest asset management, which now possibly employs some 20 to 30 people in the UK. Other Chinese companies also want to domicile in the UK and domicile funds in the UK, which is very much a result of our position at the forefront of liberalising the renminbi. After Hong Kong and outside of Greater China, we are the most important offshore centre for the renminbi. We have the biggest market. So, yes, it is very much bringing benefits.

Q69 Chair: Caroline, that completes our line of questioning, and I thank you for your time. It is frustrating for us that we are not there with you, and I would like to think that it is frustrating for you as well. We really appreciate you taking the time to speak to us. Is there anything that you want to say in conclusion?

Caroline Wilson: No. There are a huge number of topics that we could discuss, and we obviously remain at your disposal. If there are things that we can help you with, either individually or in terms of others that you are seeking to meet here, please let us now.

Q70 Chair: We will do. When do you expect your next six-monthly paper to be published?

Caroline Wilson: We aim to get them out as promptly as possible—*[Interruption.]* The end of January.

Chair: Thank you. We look forward to reading it. It might have a slightly stronger flavour than previous ones. We await it with interest.

Caroline Wilson: Thank you.