Keeping calm and carrying on

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Talking to Hong Kong's business community, the consensus is that behind the headlines it's business as usual

Nobody could accuse the Hong Kong government of playing down the impact of the street protests to hit some areas of the city over the last two months: In early October, no less than Financial Secretary John Tsang publicly called on the protestors to see reason, pointing out they are endangering Hong Kong's reputation as one of the world's premier financial hubs, while at the same time prudently reminding investors of the risks they face, at least in the short term.

But a month on, the international community shows no sign of abandoning Hong Kong, and talking to Hong Kong's business community, the consensus is that behind the headlines it's business as usual.

True, the demonstrations have hit some luxury shops hard, particularly after Beijing cancelled package tours from the Mainland; but the retail sector has been in trouble since at least the beginning of the year, thanks in large part to China's economic slowdown and an anti-corruption drive.

Admittedly, the Hang Seng fell 3.2 per cent in the first two days of the protests; but since then it has steadily risen to pre-demonstration levels.

And some in the media have even raised questions about Hong Kong's status as an offshore RMB centre, even though Beijing has given no indication it intends to slow the opening of the capital account. RMB internationalisation is a long-term project, and Hong Kong will remain part of it: the Shanghai Free Trade Zone is not about to be converted into an RMB centre.

The ratings agencies have taken a more sanguine view of the current situation, saying they foresee no danger to Hong Kong's AAA, AA1, and AA+ credit ratings, with Fitch, for example, noting: "the protests are not impacting materially on the economy or financial stability of the city".

A view shared by Karen Bell, the UK's Acting Consul General: "One Country, Two Systems has been an overwhelming success. If you look at Hong Kong now, 17 years after the handover, we're in a place where the rule of law functions, and where people are able to demonstrate, to express concerns about everything from human rights to the operation of government. The reason that British business wants to come here, that the place thrives, is absolutely because of those freedoms and the autonomy that Hong Kong benefits from."

In short, while the demonstrators are protesting about what they see as Beijing's interference in the city's governance, it is precisely Hong Kong's unique relationship with China – underpinning the SAR's growth plans in the coming decades – that has prevented panic within the international investment community.

Start me up: Co-working spaces like CoCoon are nurturing Hong Kong's vibrant creative and technology sectors

Lest we forget: Hong Kong is a big part of Beijing's 12th Five Year Plan, its development blueprint for economic and social development between 2011 up to the end of 2015, and this consolidates the city's already strong position as an international financial, trade and shipping centre. China is helping Hong Kong nurture emerging industries in environmental, medical services, education services, testing and certification, innovation and technology, and in the cultural and creative sectors. Economic co-operation between Hong Kong and the Mainland has also deepened through the 2004 Closer Economic Partnership Agreement (CEPA), which gives Hong Kong companies preferential status.

At the same time, China and Hong Kong are pushing ahead with a comprehensive transportation system throughout the neighbouring Pearl River Delta Region and the SAR. A financial co-operation zone is also planned. Meanwhile, the upcoming launch of Shanghai-Hong Kong Stock Connect will further strengthen Hong Kong's position as an international IPO centre by giving foreign investors access to Shanghai stocks through the Hong Kong Stock Exchange, while Chinese investors will be able to trade Hong Kong's.

Beijing's vision for Hong Kong has been vigorously backed by Downing Street: last year saw two major visits to China by George Osborne and David Cameron, while London has also beefed up resources to help British businesses access the Mainland via Hong Kong, says Andrew Weir, senior partner at KPMG and chairman of the British Chamber of Commerce. "UKTI has given renewed focus to Hong Kong; they're really working hard to make things happen. Concerns that Hong Kong might be bypassed appear to have been overstated, and instead we're seeing Hong Kong offices being set up by very big Chinese organisations and China funds based in Hong Kong because it's nearer the action. And then there's the trade and investment flows between Hong Kong and the UK. Hong Kong has always found a way to be relevant."

More than relevant, according to Richard Winter, CEO of Quam Capital and chairman of the British Chamber of Commerce's financial markets committee: "I think Beijing actually looks to Hong Kong to take a leadership role and share best practice. China is open to moving toward our systems and regulatory standards, and Beijing may even be disappointed with our current lack of confidence in financial leadership and initiative."

In addition to the political privileges it enjoys, Hong Kong is making the most of its geographic proximity to China. "The city really is that old marketing cliché of a gateway into, and out of, China," says Andrew Davis, associate director general at Invest Hong Kong (InvestHK), the HKSAR government department responsible for foreign direct Investment.

Creative industries hub

InvestHK has been playing a key role in Hong Kong's bid to become a creative industries hub. "We have seen a gradual increase in the number of companies in the creative sector, so much so that we structure ourselves around a few priority sectors and we've created a new team to focus exclusively on the creative sectors," says Mr Davis. "We are not talking about one or two channels, we're seeing multimedia, publishing, broadcasting and internet-based companies: there's no reason why Hong Kong's creative sector shouldn't be the same size as London's within three to five years. That's based on the opportunities and growth we've seen so far, right across the region."

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Economic powerhouse: as China's leading financial centre, Hong Kong is at the heart of RMB internationalisation

Hong Kong currently ranks sixth worldwide and second in Asia in terms of total market capitalisation

Red Ant, a UK-based digital and technology marketing specialist, moved to Hong Kong last year, opening a regional headquarters to complement a local team already established in Shanghai. Elisa Harca, the company's Asia regional director, says Hong Kong was the only choice as the location from which to base its strategy to develop strategic digital partnerships with key brands across Asia, as well as further strengthening relationships with existing clients in China.

Aside from the city's legendary can-do attitude and welcoming business environment, she says she was impressed by the support for UK companies looking to enter China, albeit with some caveats.

"Compared to some other markets, the UK is really active in helping forge business relationships across the two countries. However, more could be done in terms of expectation-setting for UK companies and helping them better define what they need to do to enter, how they assess the timing and what they should expect. Education about the challenges would be well received and drive more efficiencies."

Ms Harca's advice to newcomers is to shed any notion that doing business in China is cheap: "The West's perception of 'cheap China' is out of date and very misleading. The sheer scale of the country and its population means that when you want to reach consumers, you cannot apply a non-investment approach, you have to be willing to allocate spend to tailoring and customising your brand story to the audience and getting into their minds and hands. For example, if you want to run a social media advertising campaign, the cost of that 'paid' media is around 5-10 times the cost than you would have in the West."

British companies also face increasing competition from Italian, German, and French companies. "The French community is the fastest growing in Hong Kong," according to InvestHK's chief marketing officer, Karen Winton, a situation driven primarily by the growing numbers of French luxury goods companies looking to service their Mainland operations from Hong Kong, she believes.

While setting up a business in Hong Kong is easy, finding affordable office space can be a challenge; which is why many young entrepreneurs are turning to the city's 30 or so new co-working spaces.

Open-plan offices rented to individuals who work alongside each other, rent is comparatively cheap, and terms flexible, explains Theodore Ma, co-founder of CoCoon, a co-working space set up in 2012. "Hong Kong's start-up scene is growing fast. Just look at the number of co-working spaces out there and you can see there is a demand. There are also generous government programmes, such as the incubation programmes at Science Park," he says, highlighting the growth potential of the creative industries sector: "There is room to grow, and particularly there is a huge demand for people with technical expertise. We see many job postings on our online marketplace CoCoon Market for such people. The angel investment scene is also growing, and will take some time to mature."

Financial hub

Hong Kong is not about to lose its long-standing reputation as one of the most popular destinations for raising capital any time soon: it currently ranks sixth worldwide and second in Asia in terms of total market capitalisation of all listed companies, which explains its enduring importance to the UK, says Jo Hawley, Director of Trade and Investment for the British Consulate in Hong Kong.

"Hong Kong is a priority market for the UK: it's our eleventh biggest export market, and in part that is because of China trade coming through here," says Ms Hawley: "In 2013 £7.9 billion worth of exports came through into Hong Kong from the UK."

As China's leading financial centre, with its own currency and separate Western-style legal system, Hong Kong has been the traditional first choice for Chinese enterprises going public outside the Mainland, but its confidence was dented in September when the Chinese e-commerce giant Alibaba chose New York over Hong Kong for its blockbuster IPO. As a result, says Andrew Weir, the city's stock market is starting to rethink rules that stopped it from accommodating Alibaba's unique management setup. "The Financial Services Development Council and Stock Exchange continue to raise new initiatives and ways to preserve and develop further Hong Kong's role as a leading international finance centre. Recent examples include the acquisition of London Metal Exchange, the various RMB platforms, Shanghai-Hong Kong Stock Connect and the concept paper on Weighted Voting Rights," he adds.

As more than one observer has pointed out, the election of the Chief Executive in 2017 is important, but it is far from the only challenge facing Hong Kong. The danger, say some, is that by focusing on an event three years away, Hong Kong risks losing sight of the bigger picture, which is to become an innovative global hub servicing China's financial evolution and transformation into a services economy.

Old Hong Kong hands have seen it all before, and are confident that the city will not come off the rails: "Hong Kong is incredibly flexible, it's what makes the place," says Richard Winter. "I remember pre-1997, many feared our world would end. Charles Lee, then head of the Hong Kong Stock Exchange, famously noted 'I can tell you what's going to happen next month – it'll be exactly what's happening now'. And it's been the same with our various subsequent crises, Hong Kong always bounces back, stronger than ever." F