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In Focus | What comes next for Hong Kong as a global financial hub?

Hong Kong needs more yuan products, commodity trading infrastructure and fintech innovation, market participants say

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Illustration: Henry Wong

What will a stronger international financial centre look like for Hong Kong? Doubling down on yuan internationalisation is a key focus, experts say in this second of our five-part series on the city's first five-year blueprint. Read part one here.

With a symbolic press of a button, top officials and securities regulators from Hong Kong and mainland China earlier this month marked a historic moment for the city's financial markets.

The August 3 launch of the first offshore Chinese government yuan-denominated bond futures contract, along with related cross-border policies, underscored what Beijing called a critical upgrade of Hong Kong's status as the country's largest offshore yuan trade-settlement market.

The milestone comes as Chief Executive John Lee Ka-chiu prepares to deliver the city's first five-year plan aimed at aligning with national development.

A key theme is on reimagining the economy, finance and trade and in this, analysts say, Hong Kong will have to do much more to raise its status as an international financial centre.

This is why the August 3 launch was momentous. It will give a longed-for shot in the arm to Hong Kong's mandate from Beijing to help globalise the yuan and strengthen the city's position as an international financial centre, according to business leaders.

Market participants and policy experts, meanwhile, have called for expanded yuan products, commodity trading infrastructure, a diversified talent pool and fintech innovation to reinforce Hong Kong's capacity to channel global capital into the country while mitigating geopolitical and currency risks.

"Yuan globalisation is a very important part of Beijing's mandate for Hong Kong to service the country as stated in the country's 15th five-year plan," said Kenny Shui Chi-wai, vice-president of Our Hong Kong Foundation think tank.

"Hong Kong connects China with the world – the city's international financial centre status means a lot to the country."

He said Hong Kong's financial services sector would give much-needed support not just to mainland Chinese companies, but also to local firms to raise funds via initial public offerings (IPOs).

"This directly contributes to the city's real economy," he noted.

Hong Kong was the world's top IPO destination until June, when billionaire Elon Musk's commercial aerospace company SpaceX listed in New York for US$75 billion. Hong Kong remains a prime international choice for IPOs by mainland firms largely due to political barriers in the United States. At least 500 candidates are in the pipeline for the rest of the year.

Our Hong Kong Foundation vice-president Kenny Shui says yuan globalisation is a key plank of Beijing's plans for Hong Kong under the 15th national five-year plan. Photo: Elson LI

Business magnate Allan Zeman, chairman of the Lan Kwai Fong Group and a member of the Chief Executive's Council of Advisers, noted that the Middle East war was accelerating the pivot of the region's wealth to Hong Kong, alongside the trend of so-called de-dollarisation.

"Hong Kong's importance … becomes not just a support for China; we now become a bridgehead. It really elevates Hong Kong's standing to another level," Zeman said.

Hedging interest rate risks

While the mainland maintains a largely closed capital account, more than 70 per cent of global payments in the offshore yuan market pass through Hong Kong, with the city's renminbi deposits exceeding 1 trillion yuan, making it the biggest pool outside the mainland, official data shows.

The latest launch – the Chinese government's first onshore sovereign bond futures contract available in an offshore market – is designed to provide global investors with a crucial tool to manage renminbi interest rate exposure as they increase their allocations to mainland fixed-income assets.

Bond futures are derivative products with government bonds as their underlying asset, allowing traders to buy or sell the bonds at a fixed price on a specific future date.

Traders use them to protect their investments against changing interest rates or to speculate on which way bond prices will move. They allow them to trade the value of bonds without having to own the actual bonds upfront.

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The five-year Chinese government bond futures contract is traded on the Hong Kong stock exchange.

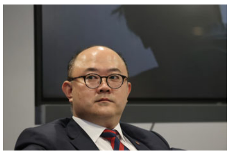
“International investors’ holdings of Chinese bonds have already reached 3.2 trillion yuan, and the need to hedge interest rate risk is inevitably growing,” said Mofiz Chan, chairman of the Hong Kong Securities and Futures Professionals Association.

“Now, the government bond futures allow investors to hedge interest rate risk more efficiently without changing the structure of their underlying asset holdings. This enables more investors to hold renminbi-denominated government bonds.”

Chan said the city should offer more renminbi-denominated products, including derivatives, to boost the yuan’s pricing power among international assets.

“We need to push for more yuan-denominated futures, options and over-the-counter derivatives to go online,” he said.

To draw larger pools of capital, Chan called for the launch of an “IPO Connect” cross-border scheme to integrate primary markets and to include real estate investment trusts (Reits) in the existing southbound Stock Connect share-trading programme to satisfy mainland investors’ thirst for yield.



Mofiz Chan of the Hong Kong Securities and Futures Professionals Association says the city should offer more renminbi-denominated products to boost the yuan’s pricing power among international assets. Photo: Jonathan Wong

“If implemented, mainland investors can directly trade Hong Kong stocks using yuan, elevating the proportion of the currency used in cross-border securities investments,” Chan added.

He further urged regulators to introduce block-trading mechanisms and resolve discrepancies in trading days between the mainland and Hong Kong.

Crucially, Chan said Hong Kong had to act as a true booster for China’s new productive forces by developing intellectual property-backed bonds and tech enterprise bonds.

He also urged the city to tap into the US$6 trillion Islamic finance market by issuing sukuk, or Islamic bonds, to fund domestic megaprojects such as the Northern Metropolis.

To unleash market vitality, Chan argued that regulators must “tear down walls” by slashing prohibitive anti-money-laundering compliance costs that burden smaller brokerages.

He said another priority for Hong Kong was to expedite the adoption of the digital yuan in cross-border payments, in line with the recent commercial expansion of China’s Project mBridge platform, to mitigate geopolitical risks tied to the US-dominated Swift interbank network.

A creator or a follower?

Dan Ronald Leung Wai-tsun, CEO of Esperanza Fintech Group, a Hong Kong-based financial technology firm whose licensed businesses include gold trading and tokenised gold services, called on the government to clearly spell out its position in the five-year plan and to adopt a new mentality towards fintech development.

He said the city widely followed US-driven trends in technological adoption such as generative artificial intelligence (AI) integration and blockchain architecture.

“Does it want to be a creator or a follower?” Leung said. “Hong Kong needs to focus on helping China go global, especially during the time of deglobalisation of the US dollar.”

Leung, a lawyer by profession, said he believed Hong Kong’s niche was in having an established common law regime, which could serve as a gatekeeper for mainland companies expanding abroad.

“The Hong Kong government also needs younger leaders to bring in a new mentality and ideas,” he said, noting that Singapore was also chasing fast on fintech development.

In addition, a key pillar of the nation’s 15th five-year plan is the establishment of a physical commodities trading and storage ecosystem, including one for gold.

Dan Ronald Leung, CEO of Esperanza Fintech Group, says the city needs to help Chinese financial products expand overseas at a time when the US dollar is being “deglobalised”. Photo: Jonathan Wong

“Hong Kong should leverage the strengths of its internationalised financial market to address its shortcomings in physical delivery infrastructure,” Chan of the association said.

“The goal is to establish Hong Kong as the pricing centre for gold in the Asian time zone.”

The urgency of building that physical infrastructure was echoed by Wilson Chan Fung-cheung, a veteran banker and adjunct professor at City University’s College of Business.

“If there is only an exchange without a storage location … settlement can only rely on net settlement,” Chan said.

“But if we can have exchange settlement alongside physical warehousing in Hong Kong, it will increasingly encompass copper, aluminium, zinc and lead. If Hong Kong can play this role, it can help with pricing.”

Shui of the think tank said developing a commodity trading ecosystem in Hong Kong would also benefit the city’s global financial centre status and the real economy because it involved trading, warehousing, processing and refining, logistics, insurance and professional services, and more.

“It will also play a role in strengthening China’s financial security and risk management,” he said.

Wilson Chan said that the 15th five-year plan's focus on helping enterprises "go global" was not about the US market, but mainly about emerging markets, or the Global South.

"If you are helping enterprises go abroad, you should go to the fastest-growing markets today – Southeast Asia, the Middle East and Central Asia," he said.

"Because these are the truly growing markets that will consider using the renminbi. The US market is an environment where we have no pricing power."

'Find your own path'

Shui called on the government to add currencies from Asean countries and the Middle East to the city's real-time gross settlement system, a secure electronic money transfer system where funds move from one bank to another in real time.

At present, the system includes the Hong Kong dollar, US dollar, euro and yuan.

"This will minimise currency exchange costs and will boost mainland trade with these markets," he said.

Shui said Hong Kong required a more diversified talent pool for its ambitions to tap into new markets including countries in the 11-member Association of Southeast Asian Nations trading bloc, the Middle East and Africa.

"Hong Kong needs to bring in a more diversified profile of talents, in addition to talents who know China or come from there," he said.

"Anyone who was educated in or has worked in these new markets before will be helpful not just to Hong Kong, but China, as many mainland firms want to expand over there."

Some human resource groups earlier this year argued that the city's heavy reliance on mainland talent could downgrade Hong Kong's status as an international hub, as 94.5 per cent of successful applicants in a top talent scheme came from across the border.

Hong Kong was the world's top IPO destination until June, when billionaire Elon Musk's SpaceX listed in New York. Photo: Elson Li

To leverage the city's financial strength, Shui said the insurance sector could provide services to mainland companies to mitigate geopolitical risks.

Beyond product offerings, some experts argued Hong Kong had to fundamentally alter how it deployed its own reserves to chart its own path rather than chasing established Western templates.

Jun Yu Chan, a partner at Wings Capital Ventures, questioned why most of the city's Exchange Fund – the war chest used to defend the local currency – was invested in US dollar-denominated assets through global asset managers.

"Why don't you allocate a little bit more to the local managers, which you have more control over?" he said.

"You can give them a mandate to do a certain percentage of trading in the Hong Kong stock market or bond market. All this trading will create the liquidity to build up the depth of the Hong Kong markets."

He suggested that the city take the regulatory lead in nascent sectors such as AI and cryptocurrencies by actively building functional use cases.

"You are not a follower of any international standard. You have to find your own path. You are making the rules for yourself, not for other people," he said.