

NARRATIVE REPORT ON HONG KONG



PART 1: NARRATIVE REPORT

Overview

Hong Kong is in forth position in the 2018 Financial Secrecy Index. It has a **fairly high** secrecy score of 71 out of 100, accounts for 4.17 percent of the global market for offshore financial services, and is growing.

Hong Kong is one of the world’s fastest growing secrecy jurisdictions or tax havens today. Its fund management industry [had \\$2.2 trillion¹](#) under management at the end of 2015; and over \$470 billion in private banking assets. It has the [third²](#) largest stock exchange in Asia after Tokyo and Shanghai; it [ranks second after New York³](#) for proceeds of initial public offerings, and hosts a wide range of financial services players. In 2015 [it had⁴](#) the world’s highest density of Ultra High Net Worth Individuals with personal wealth over \$100 million, at 15.3 per 100,000 households. On paper, Hong Kong accounted for just under half of all foreign investment into China at the end of 2012, according to IMF data. Much of this was round-tripped Chinese capital, however.

The government’s [promise⁵](#) to uphold the principle of “keeping intervention into the way in which the market operates to a minimum” is a classic see-no-evil approach to financial regulation, designed to attract offshore business, dirty and clean, with few questions asked. Hong Kong’s classification for many years at the top of the right wing Heritage Foundation’s ranking of economic freedom, its [Number 1 ranking⁶](#) in the World Economic Forum’s Financial Development Index in 2011, and its [current 6th place⁷](#) on their Global Competitiveness report, are testament to this. Hong Kong’s reluctance to sign up to global transparency standards stems from this attitude. Hong Kong’s official role as a “Special Administrative Region” of China involves two essential components which underpin the offshore financial centre: first, the protections afforded to Hong Kong by China, reassuring offshore players of Hong Kong’s stability, while at the same time enjoying ‘a high degree of autonomy’ from China in all matters except foreign relations and defence, which allows minimal interference in the sector⁸. In this and other respects the Hong Kong-China link resembles Britain’s links with its [three crown dependencies and 14 overseas territories⁹](#) (of which 10 are recognised secrecy jurisdictions): partly independent from Britain yet also partly linked to and supported by it. Given Britain’s long role here, this similarity is hardly a coincidence.

The economist Milton Friedman famously [declared his love¹⁰](#) for Hong Kong’s freewheeling *laissez faire* approach and cited this – as many have done since – as a key reason for the territory’s undoubted economic success over the decades. Yet this argument represents a fundamental misreading of history, for two main reasons. First, the underlying reason for Hong Kong’s success in raising living standards lies not in its economic system, but elsewhere: most importantly its unique location as the world’s English-speaking offshore gateway to China (and its world class port serving the region,) as well as its role as an island of political stability in a turbulent region first protected by the British colonial power, then by China. Second, for all its unusual economic freedoms that people cite – and Hong Kong has certainly been an exception to a fast-growing Asian region characterised by heavily state-led industrialisation – Hong Kong was never the free-market economy that its cheerleaders claim, as this report shows.

Rank: 4

Chart 1 - How Secretive?

71
Secrecy Score

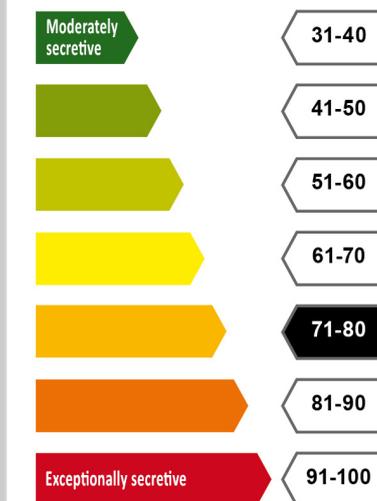
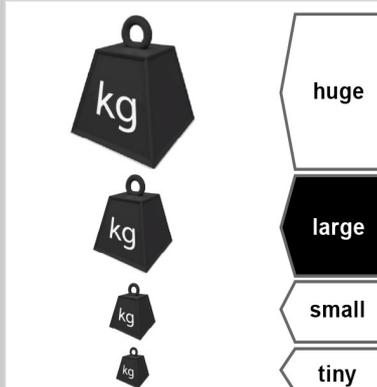


Chart 2 - How Big?



Hong Kong accounts for more than 1 per cent of the global market for offshore financial services, making it a large player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data on Hong Kong is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financial-secrecyindex.com>.

© Tax Justice Network 2018

If you have any feedback or comments on this report, contact us at info@taxjustice.net

Hong Kong's secrecy score of 71 places it at the higher end of the secrecy scale, roughly on a par with Panama, and higher than all of the major British-linked secrecy jurisdictions. It offers a wide range of offshore services including tax exemptions, transfer pricing facilities, escape routes from Chinese exchange controls, and various forms of financial secrecy including the use of opaque companies and trusts that can assist tax evasion and other crimes. A [massive exposé](#)¹¹ by the International Consortium of Investigative Journalists (ICIJ) in 2014 revealed a wide array of assets owned by mainland Chinese élites held in secret via offshore trusts and companies and other vehicles: Hong Kong was often part of the ownership structures.

Hong Kong has meanwhile been busy adding and expanding a range of offshore facilities to grow its role as an all-purpose global offshore financial centre. Significantly, Hong Kong has been more resistant to global transparency initiatives than many other financial centres (including its closest regional rival Singapore): it has not signed the [multilateral agreement](#)¹² for adopting the global Common Reporting Standards in favour of pursuing the much less effective bilateral route (see below). Hong Kong has consequently attracted some of the region's less savoury financial flows.

The history of Hong Kong's offshore financial centre

British colonial roots

Hong Kong was created in 1842 after Chinese rulers tried to crack down on the [traffic in opium](#)¹³, which British traders were then pushing aggressively into China. In response to the Chinese crackdown Britain sent a naval fleet which killed some 20,000 people and shattered the Chinese Empire, leading to the Treaty of Nanking in 1842 under which China ceded a long term leasehold over Hong Kong to Britain. From these ignoble beginnings the territory became Britain's main commercial gateway to China.

Along with shipping and general trading, finance was a central ingredient of Hong Kong's economic success from the outset - and a pillar of British policy towards China, anchored in a collaboration between the Foreign Office and the Hong Kong-based Hong Kong and Shanghai Bank, the forerunner of today's global giant bank HSBC¹⁴.

British administrators in Hong Kong espoused a strong and at times rather extremist approach of liberal capitalism - a trait common to most secrecy jurisdictions, though Hong Kong was never the free-market beacon its admirers have painted it as. This *laissez-faire* approach included a high

degree of tolerance for smuggling and other illicit commercial activities. In the 1860s Britain's Jardine Matheson and other trading houses (which were, to a large degree, officially approved drug trafficking organisations) even protested in London at British efforts to help the weakened Chinese state collect taxes; the Hong Kong government, for its part, wouldn't co-operate with the Chinese either.¹⁵

In the 19th Century and for much of 20th Century, the "difficult" Chinese market never turned out to be the fabled source of riches that many British financiers had hoped, and even the City of London's limited role in funding Chinese infrastructure nurtured considerable resentment. As one Chinese revolutionary leader put it in 1910 ([ibid p. 441](#)¹⁶)

"If [China] is not conquered by partition it will be lost by invisible financial control by foreign powers."

After the Chinese revolution of 1911 China turned inwards, and while the turmoil did divert some trade to the relative stability of British Hong Kong, British opportunities were somewhat meagre. However, the subsequent Chinese civil war of 1945-49 saw a new influx of Chinese refugees and capital to Hong Kong, setting the stage for rapid industrialisation.

Dirty money, then the Open Door, then the Handover

Hong Kong's reputation as a free-market outpost in Asia was popularised by the U.S. economist Milton Freedman from the 1960s and 1970s. He [was inspired](#)¹⁷, in turn, by Sir John Cowperthwaite, Hong Kong's Financial Secretary from 1961-1971, who had such stridently anti-government views that he even [refused](#)¹⁸ to collect official statistics for fear they would give government officials too much power. In the modern age, Hong Kong's widely touted economic freedoms have placed it in first position in the Heritage Foundation's [Index of Economic Freedom](#)¹⁹ for many years.

This *laissez-faire* spirit has included a policy to deliberately turn a blind eye to tainted foreign money, for many decades. A memo written by Chase Manhattan Bank economists in 1966 provides a revealing window into Hong Kong's role as a British offshore financial centre, long before the handover to China. In his book *Hot Money* ([p. 199-200](#)²⁰) the Canadian economist Tom Naylor publishes part of that 1966 memo:

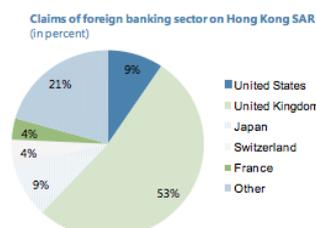
"Hong Kong has long been the flight money center for Southeast Asia and the Far East. Its stature in the postwar era has apparently

grown year by year with the intensification of the cold war and mounting revolutionary crises in the area. All the trouble spots, Indonesia, Vietnam, Thailand, Burma, Malaysia, Singapore, India, now contribute to the flow. One of the largest contributors is the relatively stable and prosperous Philippines, whose smuggling operations are a continued source of funding. Hong Kong is also Communist China's major foreign-exchange earner and window on the Free World, and could be shut down at any time. Although Hong Kong, like Beirut, is an imperfect flight center in comparison to the relative security of Switzerland or the U.S., it has the advantage of physical closeness and cultural similarity to the flight areas it serves."

The Chase Manhattan economists estimated that flight money made up 30-50 percent of all Hong Kong bank deposits in 1965, "one of the highest components of flight money in any banking system outside of Switzerland." A similar percentage was evident in the real estate sector, they added.

Subsequently, China's Open-Door policy announced by Deng Xiaoping in 1978, opened a new era in Hong Kong's role as a financial centre and secrecy jurisdiction. Visible trade grew by an astonishing 28 percent per year from 1978-1997, according to historian [Catherine Schenk](#)²¹, and by the time of the British handover in 1997, an estimated 80 percent of foreign investment in China's rapidly industrialising Guangdong province was at least nominally from Hong Kong.

Ahead of the handover in 1997 Britain began to consult and negotiate policy changes with China in what was known locally as a "through train", to ensure continuity. Britain hoped that this, plus Hong Kong's legal system based on English common law, would help City of London financial interests retain their foothold in this gateway to China. Almost two decades later it is clear that the City has had significant successes in this respect: today, over half of all foreign financial claims on Hong Kong [are](#)²² from British banks, as the graphic below shows.



Indeed, in a [fascinating paper](#)²³ on the global networks of offshore, Haberley and Wojcik note:

"the transfer of Hong Kong to Chinese control seems to have pulled China into the orbit of Britain's financial "second empire." At the same time, the UK itself loads more strongly as an FDI host on this component than the other three, suggesting that Chinese offshore capital has in turn begun to have a major influence on The City."

At the time of the handover Hong Kong was given a wide degree of autonomy under its [Basic Law](#)²⁴, but with China taking responsibility for defence and foreign relations, and gaining powers to appoint Hong Kong's chief executive and top officials. This set-up is strikingly similar to the arrangements Britain has with its Crown Dependencies and Overseas Territories, most of which are secrecy jurisdictions: Britain also retains responsibility for defence and foreign relations, and appoints top officials. This close similarity is no coincidence, given the history, and the Chinese leadership's personal incentives with respect to Hong Kong's longstanding role in hiding assets certainly helped smooth the handover.

Hong Kong was always intended as a familiar, trusted, Chinese-speaking offshore centre for the Chinese leadership and wider élites: a place where business can be partly controlled but also significantly protected from mainland scrutiny. However, for added secrecy, Hong Kong structures are often combined with structures in other jurisdictions outside the Chinese orbit, particularly the [British Virgin Islands](#)²⁵, which became the foreign secrecy jurisdiction of choice for Chinese and Hong Kong élites from the mid-1990s, amid fears of Chinese control (as the [BVI narrative report](#)²⁶ explains in detail.) A relaxed, see-no-evil attitude has prevailed, and continues to do so. This [analysis](#)²⁷ of a particular court case in 2012 by money laundering specialist Christine Duhaime illustrates current attitudes:

"The Court of Appeal quashed a conviction of a woman who admitted using the Chinese and Hong Kong illegal underground currency exchanges to receive proceeds of crime from fraudulent transactions. The Court noted, as part of its Reasons, that there was a well-known underground banking economy in Hong Kong for illegal currency exchanges and overturned the conviction despite the admission of the accused that her activities were illegal and the fact that she dealt with proceeds of

crime to launder them. . . The facts of the case shed some light on the underground flow of currency from Mainland China to Hong Kong and the extent to which such activities are accepted as part of the normal way of doing business between China and Hong Kong.”

It is hardly surprising that Hong Kong has served as the prime turntable for Chinese bribery and other corrupt activities.

Laissez faire, but within limits

Notwithstanding the lax attitude towards money-laundering, Hong Kong has been far from the free-market paradise that Friedman and other cheerleaders have asserted. As Schenk [notes](#)²⁸, large public subsidies for housing and education, for instance, meant that *“the reality was very different from the myth of complete laissez-faire.”* Another [account](#)²⁹ goes further:

“Friedman mistook Hong Kong’s colonial economic system as a free market, despite Hong Kong’s highly orchestrated colonial command economy.

...

Even during the best of times, the average local Chinese small and medium businesses had to operate under the dictates of British colonial policy and at the mercy of monopolistic British trading firms and banks, not to mention that the average worker never had it good at all. British monopolies needed an unregulated supply network of ruthless predatory competition to keep costs low.

...

The so-called rule of law, so frequently touted these post-colonial days in Hong Kong, merely meant that no local Chinese business ever won a case against any British trading firm in 150 years of colonial justice.”

This represented freedom for the wealthy and influential, and something rather different for everyone else – a classic characteristic of secrecy jurisdictions, we have found. Historian Steven Tsang [adds](#)³⁰ that, behind the scenes,

“the government remained the largest employer, the biggest developer of real estate, the leading constructor, the largest landlord, and the biggest provider of health and education services.”

Joe Studwell, founder of the *China Economic Quarterly*, explains that Hong Kong has long been *“a patchwork of de facto cartels”* since the colonial era. Vital sectors such as land ownership are carved up, often through monolithic cross-sector corporate entities. In the ports, for example, container handling fees are among the world’s highest, despite low labour costs³¹. Until 2012 Hong Kong did not even have a functioning competition law – and the first ever legislation on this, passed in 2012, [only came into full effect in](#)³² December 2015, and contains [important exemptions](#)³³.

Statist Singapore versus “free market” Hong Kong: the verdict

A comparison with Singapore is instructive here. The two centres dominate (and ‘compete’ for) offshore financial services in Asia, with Hong Kong focused more on north Asia and China, and Singapore focusing on Southeast Asia. Hong Kong’s most immediate hinterland is Southern China, though the closing of the mainland to most trade between 1949 and 1979 also made the city focus on business with southeast Asia more than it may otherwise have done, giving it a broader regional and international spread.

The two centres have followed very different economic policies, but share similar growth trajectories. The former Singaporean premier Lee Kuan Yew who visited Hong Kong regularly (*From Third World to First: The Singapore Story: 1965-2000*, [p605](#)³⁴) summarised the different approaches:

“In Hong Kong what is not expressly forbidden is permitted; in Singapore, what is not expressly permitted is forbidden.”

This underpinned very different economic and social policies too, as Lee continued:

“The few trade unions they had did not fight market forces . . . There was no social contract between the colonial government and [Hong Kong’s people.] Unlike Singaporeans they could not and did not defend themselves or their collective interests. They were not a nation – indeed, were not allowed to become a nation. China would not have permitted it, and the British never tried it.”

Yet at the end of the day, different economic policies mask the core reason for both Hong Kong’s and Singapore’s success. Studwell explains:

“As relatively easily managed city states,

Hong Kong and Singapore perform a simple economic trick: they arbitrage the relative economic inefficiency of their hinterlands . . . Since colonial inception they have offered tariff-free trade (with few or no questions asked about where the money came from) . . . the regional offshore roles of Hong Kong and Singapore have been absolute constants since their founding, and show no sign of change.”³⁵

...

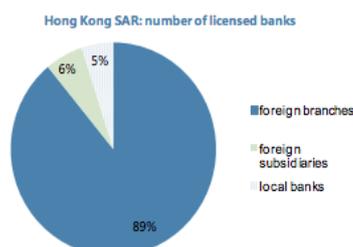
Under Mr. Lee – who never much liked private businessmen – Singapore followed a statist model, with the government taking public control of most significant companies. Hong Kong pursued an apparently opposite free market model

...

At the end of the 20th Century, the result of ostensibly diametrically opposite approaches to economic management was GDP per capita in the two cities that varied by less than \$1,000. The lesson? That a city state with a strategic deep water port in a region that has relatively higher levels of mismanagement, corruption and political uncertainty will prosper, with little reference to official economic philosophy. . . . Hong Kong and Singapore were destined to succeed. All they had to do was to be one degree more efficient, one degree more attractive to capital than surrounding countries.”³⁶

Hong Kong today

Hong Kong is currently one of the world’s fastest growing international and offshore financial centres, depending heavily on international business. According to [the IMF in 2014](#)³⁷, 95% of licenced banks were branches of foreign banks (see chart below); and 53 percent of foreign bank deposits came from Britain.



Note: The largest four foreign banks account for one half of the banking system assets

According to [a 2015 Deloitte survey](#)³⁸, Hong Kong’s wealth management industry achieved a

146 percent growth rate between 2008 and 2013, faster than any other financial centre: adding \$400 billion in cross-border client assets at a time when most other major financial centres were seeing significant outflows, with Switzerland and the UK seeing outflows of \$135bn and \$300bn respectively. Boston Consulting Group [estimated in 2015](#)³⁹ that Hong Kong’s offshore wealth sector would grow by 9.3 percent annually to 2020, the fastest rate for any major centre; [in 2017, along with Singapore](#)⁴⁰, it’s still the fastest growing in the world, thanks to a combination of growth in the region and its position as an attractive regional “booking centre.”

Hong Kong provides a growing range of “offshore offerings.” Private banking, strongly reliant on secrecy, is among the most important. Since 2009, when G20 leaders declared that the “the era of banking secrecy is over” and promised a crackdown on secrecy, there has been a significant displacement of corrupt, criminal and other abusive financial activities, both in terms of assets and the structures holding those assets – away from Western centres and towards Asian tax havens, notably to Singapore and Hong Kong. These two centres are now attracting wealth from abroad at more than [twice the rate of Switzerland](#)⁴¹. Hong Kong held over [US\\$470bn](#)⁴² in private banking assets at the end of 2015, though this activity is still eclipsed by Switzerland’s private banking sector, with over [\\$2.4 trillion in assets](#)⁴³ under management.

There is also a large [trust administration](#)⁴⁴ industry in Hong Kong – an estimated HKD2.6 trillion (USD335bn) [were held](#)⁴⁵ by Hong Kong trusts at the end of 2011 (around half the size of assets managed in the British tax haven of Jersey.) Hong Kong’s Trust Law (Amendment) bill of 2013, while modernising the laws and making some improvements, also [gives](#)⁴⁶ enhanced powers to settlors of trusts, which could create greater possibility for abuse by allowing them to pretend to give away assets (and thus creating an impenetrable secrecy wall) while still retaining a large degree of control.

Secrecy and round tripping

Hong Kong’s secrecy offerings have for years [made Hong Kong into a](#)⁴⁷ major ‘round tripping’ turntable, particularly for China. Round tripping involves Chinese investors shifting their money to Hong Kong, dressing it up in offshore secrecy, then returning it to China masquerading (illegally) as foreign investment, in order to obtain special privileges afforded to foreigners. The Asian Development Bank [remarked](#)⁴⁸ in 2004 that “the scale of round tripping FDI in PRC [China] is very large” and the State Administration of

Foreign Enterprises (SAFE) [admitted](#)⁴⁹ that Chinese mainlanders, not foreigners, were significantly behind the flow of speculative ‘hot money’ into China.

Round tripping activity largely explains the fact that of the total \$2.5 trillion in nominal inward investment into China at end-2016, over \$1200 [billion was sourced](#)⁵⁰ (nominally) from Hong Kong; the second largest direct ‘investor’ in China by far - at \$317 billion - was the British Virgin Islands. This compares to \$70 billion in recorded direct U.S. investment into China. In any case, much of the investment originating from the US is also likely to be Chinese origin capital, routed via family links within the US-Chinese diaspora. As scholars [have noted](#)⁵¹: “the great majority of foreign direct investment in China has come from the Chinese diaspora.”

The same [IMF database shows](#)⁵² the top sources of inward direct investment into Hong Kong and destinations for funds out of Hong Kong contain notorious secrecy jurisdictions and corporate tax havens:

Country (China, P.R.: Hong Kong)	Time (2016)
China, P.R.: Hong Kong Inward Direct Investment from Top Five Counterpart Economies, 2016, US Dollars, Millions	
Total Investment	1,414,922 100 %
Brit Virgin Islands	546,173 39
China, P.R.: Mainland	337,325 24
Cayman Islands	110,601 8
Netherlands	91,479 6
Bermuda	70,780 5
China, P.R.: Hong Kong Outward Direct Investment in Top Five Counterpart Economies, 2016, US Dollars, Millions	
Total Investment	1,384,539 100 %
China, P.R.: Mainland	617,507 45
Brit Virgin Islands	514,900 37
Cayman Islands	57,735 4
Bermuda	30,618 2
United Kingdom	28,800 2

Source: IMF Data Portal. Coordinated Direct Investment Survey (CDIS)

Other offshore attractions

Beyond secrecy, Hong Kong offers a range of other ‘offshore’ attractions, notably in the areas of tax and financial regulation. In 2009 China launched a pilot scheme in Hong Kong for the settlement of offshore trade in Renminbi, rather than the U.S. dollar, first steps towards an eventual goal of seeing the Renminbi as a global reserve currency: a matter of potentially profound geo-strategic importance⁵³. The market has grown significantly: the share of Chinese trade settled in Renminbi [rose](#)⁵⁴ from less than one

percent in 2010 to [12 percent](#)⁵⁵ in 2013, and then to [26 per cent before shrinking back to 16 per cent](#)⁵⁶ in 2016; the IMF meanwhile added it to its [reserve currency club](#)⁵⁷. In September 2011 China and the UK [agreed](#)⁵⁸ to start developing the City of London, via its age-old Hong Kong links, as another offshore Renminbi trading centre; by September 2013 [nearly a third](#)⁵⁹ of offshore Renminbi transactions were conducted in London.

Tax is another powerful component of Hong Kong’s offshore offering. Hong Kong does not tax capital gains, dividends or deposit interest, and has no inheritance taxes. In common with many secrecy jurisdictions, it adopts a ‘territorial’ principle which only taxes income arising in Hong Kong - while profits from overseas trading operations accruing to Hong Kong wealth managers are generally not taxed. Hong Kong is widely used as a base for [transfer mispricing](#)⁶⁰, where corporations shift profits offshore to escape tax.

Pushed towards change

There have been some efforts to tighten up controls on dirty money – albeit from a low base – not least with its Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance in 2012, the first piece of legislation to address money laundering as a primary focus. This was prompted by a critical [2008 review](#)⁶¹ from the Financial Action Task Force (FATF), which reviews countries’ anti-money laundering provisions. The new law led to a [steep rise](#)⁶² in suspicious transaction reports, though enforcement remains a problem.

Following the Panama Papers revelations in 2016, [which showed that Hong Kong was Mossack Fonseca’s most active centre in the world for the creation of shell companies](#)⁶³, Hong Kong finally sought to impose a licensing regime on the agents who set up such companies.

FATF had been pointing out this deficiency since 2008 ([p6](#))⁶⁴. By the time of its [4th follow-up report in 2012](#)⁶⁵, the Hong Kong authorities had got as far as issuing ‘practice circulars’ and ‘guidelines for compliance’ about the customer-identification obligations to the sectors involved in setting up companies, such as lawyers and trust and company service providers, but this still didn’t tackle the lack of statutory regulation.

The [new proposals](#)⁶⁶ to bring non-financial businesses within the scope of the 2012 Anti-Money Laundering Ordinance were the subject of a consultation in early 2017. Discussing FATF’s impending new review in 2018, the [consultation](#)

[document](#)⁶⁷ made Hong Kong's motives explicit:

As a matter of priority, we need to rein in DNFBPs [non-financial businesses] under the AMLO [Anti Money Laundering Ordinance], so as not to adversely affect the overall rating of Hong Kong in the mutual evaluation. Our compliance in this respect has a bearing on our hard-earned reputation as a major international financial and business centre in the world.

Under the [proposals](#)⁶⁸, which if passed by the Legislative Council will come into force in March 2018, trust and company service providers would have a new licensing process overseen by the Registrar of Companies, while the industry bodies that currently oversee estate agents, lawyers and accountants would be given statutory powers to do so for AML purposes. Non-financial businesses will be required to do due diligence to identify their customers; which, it should be noted, is *already* a legal requirement even in other secrecy jurisdictions which populate the upper ranks of the Financial Secrecy Index.

As elsewhere, these proposals would be more effective in reducing secrecy if they were combined with a requirement to list, in a public registry, the beneficial owners of the Hong Kong-incorporated companies that all these providers are busy setting up. But there is no mention of this. The [Companies \(Amendment\) Bill 2017](#)⁶⁹, which if passed will also come into force in March 2018, will only require [companies themselves](#)⁷⁰ to identify and keep a register of their own beneficial owners, with a threshold of 25% ownership.

Trusts still do not have to be registered.

On **automatic exchange of tax information**, Hong Kong [committed in June 2016](#)⁷¹ to begin exchanging under the OECD's Common Reporting Standard in 2018. But it has made it harder for other countries to obtain information from Hong Kong banks. Instead of signing the Multilateral Competent Agreement (MCAA) that would have facilitated automatic exchange of information with over 95 signatory jurisdictions, Hong Kong has chosen the bilateral route. Any country willing to obtain information from Hong Kong will have to sign a bilateral agreement with it, and at first it only said it would exchange with Japan and the UK, and with Korea in 2019.

But the threat of appearing on an EU 'non-cooperative' blacklist, one of whose criteria is the status of automatic exchange commitments,

changed this stance. The Hong Kong tax authorities have told banks to report information on accounts from an [additional 72 countries](#)⁷², [including all of the EU](#)⁷³ and all of Hong Kong's tax treaty partners which have committed to the process, although actually exchanging information with these countries will require further bilateral agreements to be made. As of late 2017, these have been [signed with](#)⁷⁴ Belgium, Canada, Guernsey, the Netherlands, Italy and Mexico.

Hong Kong has also chosen '[voluntary secrecy](#)⁷⁵', which means it will provide information to its exchange partners, but will choose not to receive any.

In June 2016 Hong Kong [joined the OECD's Inclusive Framework](#)⁷⁶ on BEPS, which commits it to implementing the [country-by-country reporting component](#)⁷⁷ of the BEPS action plan. This standard is limited, however, to requiring country-by-country reports from a) large multinationals headquartered in a jurisdiction, and b) domestic branches or subsidiaries of large groups in that jurisdiction – but only subject to strict OECD conditions ([see KFSI 9](#))⁷⁸. This is a much lower and less effective level of disclosure than full public reporting of this information would be.

Hong Kong completed a consultation in mid-2017 and at the time of writing was [due to introduce new legislation](#)⁷⁹ by the end of 2017. [This will require](#)⁸⁰ multinational companies with annual revenue of €750 million (HK\$6.8 billion) or more to file a country-by-country report in Hong Kong if their ultimate holding company is resident in Hong Kong.

A lopsided economic success?

Hong Kong's offshore offerings have drawn large amounts of wealth to Hong Kong from elsewhere, and the territory enjoys very high per capita incomes relative to others in the region. However, this is not the end of the story, as the *Financial Times* [notes](#)⁸¹:

"There is a growing perception that Hong Kong's free market model is designed to benefit the wealthy. The city has the worst income disparity of all developed economies, according to a UN report, and one in five households lives below the poverty line."

A [wave of protests](#)⁸² and civil disobedience in 2014 was ostensibly about reductions in political freedoms, but the steepening wealth divide – and concerns about Hong Kong's role as a *laissez-faire* international financial centre – fired the protests,

according to [many observers](#)⁸³. In the [words of](#)⁸⁴ Rebecca Lai, one of the protestors:

“We need to think if Hong Kong should stay an international financial centre and a paradise for global capitalism . . . “We need to think if this is still good for the citizens.”

The Boston Consulting Group reported that in 2012 Hong Kong had the world’s highest density of billionaire households, at 15 per million – while median incomes have [reportedly](#)⁸⁵ stagnated since at least 1999. This has happened while manufacturing, which began to plateau in about 1990, was eclipsed by a large growth in finance and services: from 1980-1997 employment in manufacturing [fell](#)⁸⁶ from 46 percent of total employment to just under ten percent. It seems likely that this dramatic fall is partly the result of ‘[finance curse](#)’⁸⁷ factors we have identified in other jurisdictions. Another reason for such extremes of wealth is the high ongoing cartelisation of the economy, as described above. One [account](#)⁸⁸, looking at rising protests in Hong Kong amid stagnant median incomes, summarises the underlying economic structure:

“a handful of the richest families hold monopolies and duopolies on everything from supermarket chains and property developments to public transportation systems, electricity providers and public service companies.”

Hong Kong’s economic success is certainly real – but it is not what it seems.

Read more:

Hong Kong – The Facts – Financial Services, Government of Hong Kong, http://www.gov.hk/en/about/abouthk/factsheets/docs/financial_services.pdf; 26.1.2018.

Studwell, Joe, *Asian Godfathers: Money and Power in Hong Kong and southeast Asia*, Atlantic Monthly Press, 2007; 26.1.2018.

Cain, P.J and Hopkins (1993), A.G, *British Imperialism: Innovation and Expansion 1688-1914*, Longman Group: UK.

Capital Markets Law Journal, available at <http://cmlj.oxfordjournals.org/content/6/1/104.full.pdf?keytype=ref&ijkey=Fy12OR3J2BVwY7M>; 26.1.2018.

Hong Kong Monetary Authority, available at <http://www.hkma.gov.hk/eng/index.shtml>; 26.1.2018.

Rovnick, Naomi, *South China Morning Post*, ‘Sun, sand and lots of hot money’, available at <http://www.scmp.com/article/968175/sun-sand-and-lots-hot-money>; 26.1.2018.

Schenk, Catherine, *Economic History of Hong Kong*, available at <https://eh.net/encyclopedia/economic-history-of-hong-kong/>; 26.1.2018.

Singapore Jostles with Hong Kong for Financial Crown, *Financial Times*, Oct 16, 2014, <http://www.ft.com/intl/cms/s/0/b18372a6-5297-11e4-a236-00144feab7de.html#axzz3kOqV3LL9>; 26.1.2018.

Global Wealth 2015: winning the growth game. Boston Consulting Group, 2015, https://www.bcgperspectives.com/content/articles/financial-institutions-growth-global-wealth-2015-winning-the-growth-game/?chapter=2#chapter2_section5; 26.1.2018.

Why Complementarity Matters for Stability—Hong Kong SAR and Singapore as Asian, Financial Centers, IMF, July 2015, <http://www.imf.org/external/pubs/ft/wp/2014/wp14119.pdf>; 26.1.2018.

Economic inequality underpins Hong Kong’s great political divide, *Financial Times*, Oct 21, 2014, <http://www.ft.com/intl/cms/s/0/d123d896-5808-11e4-b47d-00144feab7de.html#axzz3kOqV3LL9>; 26.1.2018.

Endnotes:

- 1 <http://hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Fund-Management-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X003UUO.htm>; 26.1.2018.
- 2 <http://uk.businessinsider.com/here-are-the-20-biggest-stock-exchanges-in-the-world-2017-4?r=UK&IR=T>; 26.1.2018.
- 3 [http://www.ey.com/Publication/vwLUAssets/IPO_Insights:_Comparing_global_stock_exchanges/\\$FILE/IPO_comparingglobalstockexchanges.pdf](http://www.ey.com/Publication/vwLUAssets/IPO_Insights:_Comparing_global_stock_exchanges/$FILE/IPO_comparingglobalstockexchanges.pdf); 26.1.2018.
- 4 <https://www.bcgperspectives.com/content/articles/financial-institutions-growth-global-wealth-2015-winning-the-growth-game/?chapter=2>; 26.1.2018.
- 5 https://www.gov.hk/en/about/abouthk/factsheets/docs/financial_services.pdf; 26.1.2018.
- 6 <http://reports.weforum.org/the-financial-development-report-2011-info/>; 26.1.2018.
- 7 <https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018>; 26.1.2018.
- 8 For instance, when the OECD sought to prepare a 'blacklist' of tax havens at a G20 summit meeting in April 2009, Chinese Premier Hu Jintao [worked hard](#) behind the scenes – successfully – to keep Hong Kong and Macau, a much smaller Chinese-linked haven, off the OECD blacklist.
- 9 <https://www.financialsecrecyindex.com/faq/what-roles-do-the-uk-and-usa-play>; 26.1.2018.
- 10 <https://www.youtube.com/watch?v=xqh0zXsD4vc>; 26.1.2018.
- 11 <https://www.icij.org/investigations/offshore/leaked-records-reveal-offshore-holdings-of-chinas-elite/#>; 26.1.2018.
- 12 <http://www.oecd.org/ctp/exchange-of-tax-information/MCAA-Signatories.pdf>; 26.1.2018.
- 13 <http://www.bbc.com/news/world-asia-pacific-16526765>; 26.1.2018.
- 14 See *British Imperialism: Innovation and Expansion 1688-1914*, the historians P.J. Cain and A.G. Hopkins ([p424](#)). A loan to China's Ch'ing dynasty in 1874 - the first ever foreign loan issued to China - helped cement the bank and Hong Kong as the key links between China and the City of London.
- 15 Studwell, p34.
- 16 <https://www.amazon.com/British-Imperialism-Innovation-Expansion-1688-1914/dp/0582491754>; 26.1.2018.
- 17 <https://iampaulng.wordpress.com/2012/08/29/hong-kong-wrong-what-would-cowperthwaite-say/>; 26.1.2018.
- 18 <https://gwulo.com/node/6190>; 26.1.2018.
- 19 <https://www.heritage.org/index/>; 26.1.2018.
- 20 <https://www.amazon.com/Hot-Money-Politics-Debt-Third/dp/0773527435>; 26.1.2018.
- 21 <https://eh.net/encyclopedia/economic-history-of-hong-kong/>; 26.1.2018.
- 22 https://www.bbvaesearch.com/KETD/fbin/mult/110613_HKSGSH_Financial_Center_tcm348-261026.pdf?ts=792011; 26.1.2018.
- 23 [http://www.smithschool.ox.ac.uk/events/Haberly%20and%20Wojcik,%20Regional%20Blocks%20and%20Imperial%20Legacies,%20Oct%20%20\(WP\).pdf](http://www.smithschool.ox.ac.uk/events/Haberly%20and%20Wojcik,%20Regional%20Blocks%20and%20Imperial%20Legacies,%20Oct%20%20(WP).pdf); 26.1.2018.
- 24 http://www.basiclaw.gov.hk/en/basiclawtext/chapter_2.html; 26.1.2018.
- 25 <http://www.financialsecrecyindex.com/PDF/BritishVirginIslands.pdf>; 26.1.2018.
- 26 <https://www.financialsecrecyindex.com/PDF/BritishVirginIslands.pdf>; 26.1.2018.
- 27 <http://www.antimoneylaunderinglaw.com/2012/03/hong-kong-court-of-final-appeal-overturms-money-laundering-conviction-over-blackmarket-currency-exchanges-in-china.html>; 26.1.2018.
- 28 <https://eh.net/encyclopedia/economic-history-of-hong-kong/>; 26.1.2018.
- 29 <http://www.atimes.com/atimes/China/EE14Ad01.html>; 26.1.2018.
- 30 https://books.google.de/books/about/A_Modern_History_of_Hong_Kong.html?hl=de&id=ZKT3AgAAQBAJ&redir_esc=y; 26.1.2018.
- 31 Studwell p69.
- 32 http://www.compcomm.hk/en/legislation_guidance/legislation/legislation/comp_ordinance_cap619.html; 26.1.2018.
- 33 <https://www.twobirds.com/en/hot-topics/navigation-hong-kongs-competition-law>; 26.1.2018.
- 34 <https://www.amazon.com/Third-World-First-Singapore-1965-2000/dp/0060197765>; 26.1.2018.
- 35 Joe Studwell, *Asian Godfathers: money and power in Hong Kong and South East Asia*, Atlantic Monthly Press, 2007, pp33-34.
- 36 Studwell, p36.
- 37 <http://www.imf.org/external/pubs/ft/wp/2014/wp14119.pdf>; 26.1.2018.
- 38 <https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/financial-services/ch-en-financial-services-the-deloitte-wealth-management-centre-ranking-2015.pdf>; 26.1.2018.
- 39 https://www.bcgperspectives.com/content/articles/financial-institutions-growth-global-wealth-2015-winning-the-growth-game/?chapter=2#chapter2_section5; 26.1.2018.
- 40 http://image-src.bcg.com/Images/BCG-Transforming-the-Client-Experience-June-2017_2_tcm38-161685.pdf; 26.1.2018.
- 41 <https://www.bloomberg.com/news/articles/2017-06-13/asian-wealth-hubs-seen-outpacing-swiss-in-offshore-asset-growth>; 26.1.2018.
- 42 hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Fund-Management-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X003UUO.htm; 26.1.2018.
- 43 <https://www.bloomberg.com/news/articles/2017-06-13/asian-wealth-hubs-seen-outpacing-swiss-in-offshore-asset-growth>; 26.1.2018.
- 44 <http://taxjustice.blogspot.lu/2009/07/in-trusts-we>

- trust.html; 26.1.2018.
- 45 https://www.tax-news.com/news/Hong_Kong_Gazettes_Trust_Law_Reform____59676.html; 26.1.2018.
- 46 https://www.tax-news.com/news/Hong_Kong_Gazettes_Trust_Law_Reform____59676.html; 26.1.2018.
- 47 <https://www.adb.org/sites/default/files/publication/157240/adb-rp58.pdf>; 26.1.2018.
- 48 <https://www.adb.org/sites/default/files/publication/157240/adb-rp58.pdf>; 26.1.2018.
- 49 <http://www.scmp.com/article/968175/sun-sand-and-lots-hot-money>; 26.1.2018.
- 50 See CDIS data, <http://www.imf.org/en/Data>; <http://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F-1CE54D6D5&slid=1482186404325>; accessed 26.1.2018.
- 51 <http://ntur.lib.ntu.edu.tw/bitstream/246246/173635/1/12.pdf>; 26.1.2018.
- 52 See CDIS data, <http://www.imf.org/en/Data>; <http://data.imf.org/regular.aspx?key=60564262>; accessed 26.1.2018.
- 53 This new development in Hong Kong partly mirrors the period of the 1960s and 1970s, when the United States tolerated the existence of the fast-growing offshore “Eurodollar” market, partly because of its role in internationalising the U.S. dollar and cementing its status as a global reserve currency, allowing the United States to (among other things) fight the Vietnam war without having to worry about paying for it immediately.
- 54 <http://www.hkma.gov.hk/media/eng/doc/key-functions/monetary-stability/rmb-business-in-hong-kong/hkma-rmb-booklet.pdf>; 26.1.2018.
- 55 <https://www.rt.com/op-edge/china-leadership-alternative-dollar-916/>; 26.1.2018.
- 56 <https://www.ft.com/content/e480fd92-bc6a-11e6-8b45-b8b81dd5d080>; 26.1.2018.
- 57 <https://www.ft.com/content/e480fd92-bc6a-11e6-8b45-b8b81dd5d080>; 26.1.2018.
- 58 <https://www.ft.com/content/9626ea50-da32-11e0-90b2-00144feabdc0>; 26.1.2018.
- 59 <https://www.gov.uk/government/speeches/london-hong-kong-building-the-offshore-rmb-market>; 26.1.2018.
- 60 <http://taxjustice.blogspot.lu/2013/12/hong-kong-chinas-premier-secrecy.html>; 26.1.2018.
- 61 <http://www.fatf-gafi.org/documents/documents/mutualevaluationofhongkongchina.html>; 26.1.2018.
- 62 <http://www.scmp.com/news/hong-kong/article/1481405/money-laundering-investigations-hong-kong-sharply-following-2012-law>; 26.1.2018.
- 63 <http://www.scmp.com/news/hong-kong/article/1934566/hong-kong-was-busiest-office-panama-papers-law-firm>; 26.1.2018.
- 64 <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20Hong%20Kong%20ES.pdf>; 26.1.2018.
- 65 <http://www.fatf-gafi.org/media/fatf/documents/reports/Follow%20up%20report%20MER%20Hong%20Kong%20China.pdf>; 26.1.2018.
- 66 <http://www.hk-lawyer.org/content/designated-non-financial-businesses-and-professions>; 26.1.2018.
- 67 <https://www.gov.hk/en/residents/government/publication/consultation/docs/2017/eaml.pdf>; 26.1.2018.
- 68 https://www.cr.gov.hk/en/publications/docs/GN20170623_2405-e.pdf; 26.1.2018.
- 69 https://www.cr.gov.hk/en/publications/docs/GN20170623_2405-e.pdf; 26.1.2018.
- 70 <http://www.shlegal.com/news-insights/corporate-insider---july-2017>; 26.1.2018.
- 71 <https://www.lexology.com/library/detail.aspx?g=6c91012e-0173-4660-9f77-6e266154ec98>; 26.1.2018.
- 72 https://www.ird.gov.hk/eng/tax/aeoi/rpt_jur.htm; 26.1.2018.
- 73 <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2017/03/tax-alert-6-hk-crs-proposed-expansion-the-list-reportable-jurisdictions.pdf>; 26.1.2018.
- 74 <http://www.oecd.org/tax/transparency/oecd-announces-further-developments-in-international-tax-co-operation.htm>; 26.1.2018.
- 75 <https://www.taxjustice.net/2017/03/14/financial-transparency-china-related-territories-taiwan/>; 26.1.2018.
- 76 <https://www.oecd.org/ctp/beps/inclusive-framework-on-beps-composition.pdf>; 26.1.2018.
- 77 <https://www.oecd.org/ctp/transfer-pricing/beps-action-13-country-by-country-reporting-implementation-package.pdf>; 26.1.2018.
- 78 <https://www.financialsecrecyindex.com/PDF/9-Corporate-Tax-Disclosure.pdf>; 26.1.2018.
- 79 <http://taxinsights.ey.com/archive/archive-news/hong-kong-releases-consultation-report-on-measures-to-counter.aspx>; 26.1.2018.
- 80 <https://www.dlapiper.com/en/us/insights/publications/2017/09/hong-kong-releases/>; 26.1.2018.
- 81 <https://www.ft.com/content/2de35c52-b692-11e1-a14a-00144feabdc0?siteedition=intl#axzz2jDgPCzV0>; 26.1.2018.
- 82 <http://www.bbc.com/news/world-asia-29413349>; 26.1.2018.
- 83 <https://www.ft.com/content/d123d896-5808-11e4-b47d-00144feab7de#axzz3kOq-V3LL9>; 26.1.2018.
- 84 <https://www.ft.com/content/d123d896-5808-11e4-b47d-00144feab7de#axzz3kOq-V3LL9>; 26.1.2018.
- 85 https://www.huffingtonpost.com/eric-zuesse/worlds-richest-07-own-136_b_4073523.html; 26.1.2018.
- 86 http://wangyujian.hku.hk/papers/research/15_Hong%20Kong%20From%20An%20Industrialized%20City.pdf; 26.1.2018.
- 87 http://www.taxjustice.net/cms/upload/pdf/Finance_Curse_Final.pdf; 26.1.2018.
- 88 <http://www.globalresearch.ca/oligarchy-island-behind-the-hong-kong-protests/5317807>; 26.1.2018.

PART 2: HONG KONG'S SECRECY SCORE

OWNERSHIP REGISTRATION

- 86% 1. Banking Secrecy
- 50% 2. Trust and Foundations Register
- 100% 3. Recorded Company Ownership
- 100% 4. Other Wealth Ownership
- 100% 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

- 100% 6. Public Company Ownership
- 100% 7. Public Company Accounts
- 90% 8. Country-by-Country Reporting
- 50% 9. Corporate Tax Disclosure
- 100% 10. Legal Entity Identifier

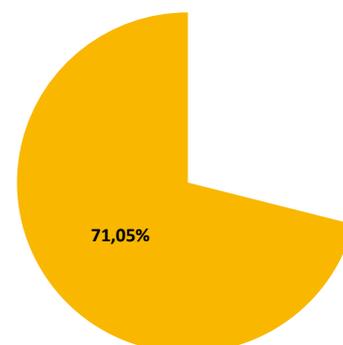
INTEGRITY OF TAX AND FINANCIAL REGULATION

- 75% 11. Tax Administration Capacity
- 38% 12. Consistent Personal Income Tax
- 100% 13. Avoids Promoting Tax Evasion
- 100% 14. Tax Court Secrecy
- 50% 15. Harmful Structures
- 30% 16. Public Statistics

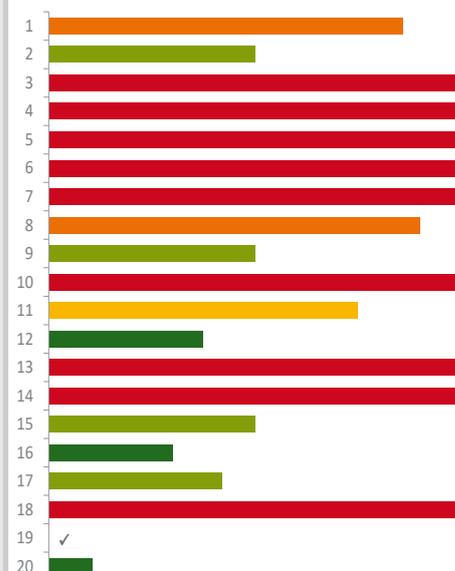
INTERNATIONAL STANDARDS AND COOPERATION

- 42% 17. Anti-Money Laundering
- 100% 18. Automatic Information Exchange
- 0% 19. Bilateral Treaties
- 11% 20. International Legal Cooperation

Hong Kong - Secrecy Score



Hong Kong KFSI-Assessment Secrecy Scores



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 71 per cent has been computed as the average score of 20 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail by clicking on the name of the indicator.

A grey tick indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 30.09.2017.

Full data on Hong Kong is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.