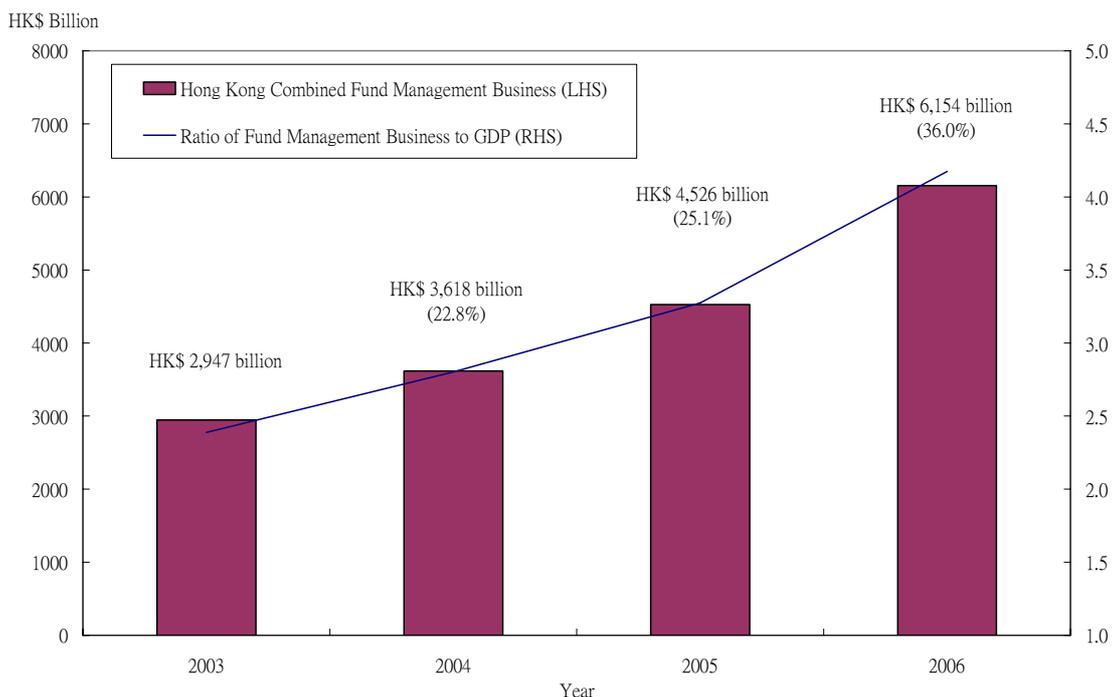


Box 4.1**Asset Management Industry in Hong Kong**

The demand for asset management services rose considerably in recent years, as rapid global economic growth and the continual increase in asset prices created a surge in the number of wealthy individuals as well as the amount of wealth commanded by them. As it is generally perceived that asset management services can be of high value-added, both at the individual level and to the aggregate economy, it is of interest to see how the asset management industry fare in Hong Kong recently, both in terms of its contribution to the Hong Kong economy and its standing in global perspective.

Undisputedly, Hong Kong has now developed into a major asset management centre in Asia. In the latest survey done by the Securities and Futures Commission (SFC)⁽¹⁾, as at end-2006, the Combined Fund Management Business⁽²⁾ amounted to HK\$6,154 billion (US\$791 billion), 4.2 times the GDP in 2006. The asset management industry had been on an increasingly rapid surge since 2003, when such a survey was first conducted. The size of the business at-2006 had been more than doubled as compared to end-2003, and recorded a year-on-year surge of 36.0%, even higher than the already strong growth of 25.1% at end-2005. (See *Chart 1*)

Chart 1: Rapid expansion in asset management business in Hong Kong

Note: Figures in brackets refer to the year-on-year growth rate in the respective year.

⁽¹⁾ Fund Management Activities Survey 2006 (July 2007).

⁽²⁾ Combined fund management business comprises fund management business and SFC-authorized real estate investment trusts (REITs) management business. Fund management business comprises asset management business, advisory business and other private banking business.

Box 4.1 (Con't)

The size of asset management business in Hong Kong also compared favourably with that of Singapore. According to latest similar survey done by the Monetary Authority of Singapore (MAS)⁽³⁾, the size of “assets under management” in Singapore amounted to around HK\$4,519 billion (US\$581 billion) as at end-2006. With the growth in Hong Kong being much faster than that in Singapore, the lead by Hong Kong considering the size of business has also widened.

The development in policy has also been favourable to the industry. The abolition of estate duty as effective from July 2005, has encouraged more people, including local, Mainland and overseas investors, to hold assets in Hong Kong, thereby conducive to the long-term development of Hong Kong’s asset management business and the financial sector at large. The recent relaxation on the scheme of Qualified Domestic Institutional Investors (QDII) and the signing of the Supplement IV to the Closer Economic Partnership Arrangement (CEPA) will further facilitate the affluent Mainland residents as well as cash-rich Mainland enterprises, which become increasing sizable in the backdrop of continued rapid economic growth in the Mainland, to make use of the asset management services in Hong Kong.

The buoyant performance of the Hong Kong asset management industry in 2006 had also been reflected in the meteoric rise in the revenue received by the industry. According to the Census and Statistics Department (C&SD), the Business Receipt Index for the industry soared by 52% in 2006 over 2005. Stepping into 2007, business receipts in this sector still enjoyed spectacular growth at 31% year-on-year in the first quarter (See *Chart 2*).

Chart 2: Business receipt for the asset management industry had been on the surge



⁽³⁾ 2006 Singapore Asset Management Industry Survey (July 2007).

Box 4.1 (Con't)

The operating characteristics of the asset management industry and its contribution to the aggregate economy are also of interest to policy maker. Latest annual survey data covering year 2005 indicates that the industry is high value-added with relatively low labour intensity. The average number of persons engaged per firm was fewer than 20. Yet the labour productivity for the industry had been high, with the value added per person engaged in the industry hitting more than HK\$2 million per year. As a result, the employees in the industry enjoyed markedly higher remuneration. While most (85%) of the business receipt came from rendering portfolio management and financial advisory services, the profit margin was also distinctly high, at around 31%.

The asset management industry should continue to flourish in the years ahead. On the top of the enormous business opportunities stemming from wealthy individuals and cash-rich enterprises in the Mainland as mentioned in previous paragraph, Hong Kong is in particular appealing to international investors seeking to tap into the rapidly growing Mainland market, as Hong Kong has accumulated ample experience and expertise in asset management over the years. The Hong Kong SAR Government also adopts multi-pronged measures to ensure the development of asset management business in Hong Kong. These include measures that enhance market development and facilitate innovation of investment products, tax measures, promotion work to overseas investors, as well as human resources development.