

Budget Speech by the Financial Secretary (3)

Enhancing Economic Resilience and Enriching Industrial Development

42. When formulating long-term economic policies, first we must be clear about the purpose of economic development, so that policy implementation will not deviate from its original intention. It is also necessary to have a full understanding of our country's development plans and strategies, as well as Hong Kong's roles and functions therein, and to take into account demand in the international market, in order to identify the right positioning and seize opportunities. Furthermore, we need to keep carefully assessing the international politico-economic landscapes, clearly identify long-term trends, grasp economic patterns, and prudently control risks to avoid disruptions to development.

People-centric Development

43. First of all, it is necessary to know whom and what purpose economic development is for. Hong Kong's per capita GDP reached US\$49,000 last year, and the latest seasonally adjusted unemployment rate has fallen to 3.9%, which look good. However, these figures do not allow us to see clearly many issues, such as unbalanced economic development and that many young people cannot fulfil their aspirations. For example, financial services accounted for 23% of GDP in 2020, but only 7% of total employment. This reflects that although people in the industry have high incomes, the beneficiaries are not broad enough. In fact, employment earnings of youths in the younger-generation with post-secondary education are generally significantly lower than those of the older-generation with similar educational attainment, indicating that the pace of economic upgrading falls short of creating sufficient high-quality jobs for young people.

44. Economic development is meant to raise the living standards of all citizens and to let all of us share the fruits of development. This is also the foundation of social harmony. As such, we must enrich industrial development, and move towards high-quality and inclusive economic growth, thereby creating more high-quality and diverse employment opportunities. This will not only benefit the citizens better, but also create conditions and provide resources to solve deep-seated problems such as housing and poverty.

A New Starting Point in History

45. The implementation of the Hong Kong National Security Law, coupled with the improvement of the electoral system, is to implement the fundamental principle of "patriots administering Hong Kong" and establish Hong Kong's political order from a legal and institutional perspective. As a result, the practice of "One Country, Two Systems" in Hong Kong can be brought back to the right track for steadfast and successful implementation, so that Hong

Kong can consolidate and strengthen its uniqueness and advantages under this system.

46. At present, the “executive-led” political system has been strengthened, and there is healthy interaction between the executive and the legislature. The administration’s governance efficiency has been enhanced as a result. The HKSAR Government, the LegCo and all sectors of society can work together to address social, economic and people’s livelihood issues, and gradually resolve some of the deep-seated contradictions that have hindered Hong Kong’s development for a long time. Year 2022 marks the 25th anniversary of the re-unification of the Hong Kong SAR with our Motherland, which will mark a new historical starting point for Hong Kong, and a new milestone towards governance and prosperity.

Integrate into the National Development

47. Hong Kong has unique advantages, including institutional advantages under “One Country, Two Systems”, a fine tradition of rule of law, and a market-oriented and internationalised business environment. We have always been leveraging the support from our Motherland while engaging with the world, serving our country’s needs with our strengths, and achieving great development in return. Under the 14th Five-Year Plan, our country continues to reform and open up, moves towards high-quality development, and progress according to the strategy of domestic and international dual circulation. It also makes clear the positioning and direction of Hong Kong’s economic development and supports the development of Hong Kong in eight areas. Integrating into the national development is an inevitable path for the Hong Kong economy. The Government will make good use of national policies and our own advantages and take the GBA as an entry point, proactively exploring the vast Mainland market and participating in the domestic circulation of the national economy. At the same time, Hong Kong will play its bridging and platform role at the intersection of domestic and international circulations well, connecting domestic and foreign markets and investors, and assisting Mainland enterprises to explore the international market.

Seeking Progress While Maintaining Stability

48. The world is undergoing a change unseen in a century. In recent years, Western countries have been trying to suppress our country’s development. The COVID-19 pandemic has dealt a severe blow to the global supply chains, further heightening protectionism. In the past two years, governments of many countries have raised debts of massive scale, and central banks have implemented extremely accommodative monetary policies, greatly increasing macroeconomic and financial market vulnerabilities. We need to stay highly vigilant at all times, better connect with the international market under the premise that risks are well managed, thereby striving for progress while maintaining stability. We also have to use development to enhance our ability to cope with risks, so as to promote stability with progress.

Innovation and Technology as well as Digital Economy

49. Innovation and technology (I&T) development is a global trend and a

reflection of core competitiveness of different economies. The I&T industry is not only a new economic growth spot, but can also enhance the productivity of other industries. For Hong Kong, whether it is the development of new industries with advantages or the transformation and upgrading of traditional industries, the contribution of I&T is required. Therefore, we must focus on promoting I&T development.

50. Digitalisation is an inevitable trend as the economy moves towards high-quality development. Through the collection of various data in the economic system, followed by digitalisation, organisation and analysis of these data, we can better understand the operation of the whole economy and the individual segments, and enhance efficiency and promote innovation. For enterprises, digitalisation can help on transformation and empowerment, quality and quantity improvement, and innovation stimulation. In order to accelerate the progress of digital economy, I will set up a "Digital Economy Development Committee", with members comprising experts and scholars, industry elites, and relevant government officials.

51. Next, I will elaborate on the key points of injecting new fields and elements into Hong Kong's economic development.

Innovation and Technology Development

52. Continuous promotion of I&T development is an important strategy to foster a more vibrant and diversified economy. The 14th Five-Year Plan supports Hong Kong's development into an international I&T hub. Apart from fostering economic growth and job creation, I&T development can also promote re-industrialisation and enhance the competitiveness of our manufacturing sector as well as enable digital transformation across various trades. The current-term Government has invested over \$130 billion in I&T development, which has seen results trending up gradually in recent years. I will allocate additional resources in the Budget to keep reinforcing the entire value chain and the I&T ecosystem.

Support Start-ups and Technology Investments

53. The I&T ecosystem in Hong Kong has become increasingly vibrant. The number of start-ups surged from around 1 000 in 2014 to around 4 000 last year; and the amount of venture capital investment surged from \$1.24 billion to about \$41.7 billion in the same period. Currently, Hong Kong is Asia's largest and the world's second-largest fundraising hub for biotechnology.

54. In recent years, the Government and local universities have allocated considerable resources to nurture start-ups and assist research teams comprising students and professors in commercialising their research and development (R&D) results. The Hong Kong Science and Technology Parks Corporation (HKSTPC) and the Cyberport, our two I&T flagships, provide one-stop support services for start-ups. So far, we have witnessed the birth and development of over 10 unicorns.

55. Over the past few years, apart from the \$2 billion Innovation and Technology Venture Fund, we have also set up the Corporate Venture Fund and

the Cyberport Macro Fund through the HKSTPC and the Cyberport respectively. Each of these funds has its own specific key areas of investment, which has significantly broadened the fundraising channel for start-ups in Hong Kong.

56. Nevertheless, as the funds mentioned above are mainly targeted at early-stage start-ups, they may not be suitable for expanding enterprises with considerable scale. Some such type of enterprises often have huge development potential. Indeed, we are not short of examples of success in nurturing these enterprises in Hong Kong.

57. I announced in my Budget two years ago the setting up of an investment portfolio named the Hong Kong Growth Portfolio using part of the Future Fund for investment in projects with a "Hong Kong nexus". The aim is to consolidate Hong Kong's status as a financial, commercial and I&T centre as well as to raise our productivity and competitiveness in the long run. Last year, the Government appointed eight fund managers as general partners to make strategic investment. To nurture enterprises that are relatively more mature and have good potential for contribution to our economy, I will further increase the funding allocated to the Hong Kong Growth Portfolio under the Future Fund by \$10 billion, of which \$5 billion will be used to set up a new investment fund, namely the Strategic Tech Fund. I will invite the HKSTPC and the Cyberport to identify technology enterprises which are of strategic value to Hong Kong as well as investment opportunities conducive to enriching the I&T ecosystem.

58. On the other hand, the Technology Start-up Support Scheme for Universities under the Innovation and Technology Fund (ITF) has been supporting universities in setting up their own start-ups and commercialising their R&D results, with a view to creating economic value. To help universities realise their R&D outcomes, I will double the amount of subsidy to \$16 million. The increased subsidy will be provided to start-ups of universities with private investments on a matching basis of one to one. Each start-up may receive an annual subsidy of up to \$1.5 million for a maximum of three years. The initiative will incur an additional expenditure of \$48 million per year.

Promote Life and Health Scientific Research

59. The impact of the COVID-19 pandemic for more than two years has roused much global interest in R&D in life and health disciplines. In fact, the National 14th Five-Year Plan has also called for focusing on issues like human health as well as the enhancement of technological strengths in specialist fields such as life and health.

60. Hong Kong has strong research capabilities in life and health sciences. There are a number of renowned scholars in local universities whose R&D teams display great originality and have the ability to create breakthroughs out of the blue, generating fruitful outcomes in scientific research. With clinical trial centres recognised by the National Medical Products Administration, Hong Kong enjoys clear advantages in promoting research and fostering development of industries in life and health disciplines. In 2018, I allocated \$10 billion to launch the flagship project of "InnoHK Research

Clusters”, under which 28 laboratories have so far been established by local universities in collaboration with over 30 top-notch universities/research institutions around the world. Among these laboratories, 16 are related to life and health sciences. On the back of our robust strength in scientific research, we can deliver more revolutionary R&D outcomes.

61. To further promote the development of life and health technology in Hong Kong, I will earmark \$10 billion to provide more comprehensive support in the long run, including hardware, research talent, clinical trials and data application, with the aim of enabling institutions, including universities, to enhance their capacity and capability in this area, as well as strengthening the industrial chain. We will set up the InnoLife Healthtech Hub in the Hong Kong-Shenzhen Innovation and Technology Park. With the above 16 laboratories and the eight relevant State Key Laboratories as the basis, we can pool together top-notch research teams from all over the world and focus our efforts on R&D work as well as global research collaboration in the field of life and health sciences. This includes biomedicine, big data and artificial intelligence, which can be applied in various areas, such as prevention, diagnosis, drug discovery, advanced treatment and rehabilitation. The HA will assist more institutions in exploring how to make better use of their hospitals for conducting research and clinical trials as well as the valuable clinical data they have accumulated for R&D purposes. Our aim is to promote multi-faceted collaboration in scientific research and development of industries, develop Hong Kong into a major R&D hub in life and health disciplines, and link up related industrial clusters.

Promote Research and Development

62. We have been actively promoting R&D in the past few years. There are 16 State Key Laboratories and six Hong Kong Branches of Chinese National Engineering Research Centres in Hong Kong. They all possess high-level scientific research teams and equipment, and many of them enjoy global leading positions in their areas of expertise. Currently, these institutions are receiving an annual subsidy under the ITF. I announce that the amount of subsidy be doubled to HK\$440 million so that they can have more resources to conduct R&D activities, nurture local talent as well as attract more local and overseas I&T talent, and further their co-operation and exchanges with institutions in the Mainland.

Technology Application

63. We have been encouraging the public and private sectors to proactively apply technologies in their operations for the benefits and convenience of the public. To promote further digitalisation in government operations, I have reserved \$600 million to conduct a comprehensive e-government audit in the coming three years with the aim of reviewing the progress made by government departments in using technologies, as well as assisting them in enhancing the efficiency of public service provision through the adoption of I&T solutions.

Strengthen the Intellectual Property Regime

64. Intellectual property (IP) protection is in line with the direction of developing Hong Kong into a knowledge-based economy and an international I&T hub. The Government will strengthen the IP regime in Hong Kong. With regard to patents, we will further promote and develop Hong Kong's "original grant patent" (OGP) system. In the next three financial years, I will allocate a total of about \$85 million to the Intellectual Property Department (IPD) for enhancing Hong Kong's capacity to conduct substantive examination in processing OGP applications. On trademarks, we are pressing ahead with the preparatory work for implementing the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks in Hong Kong. It is expected that an international trademark registration system will be put in place in Hong Kong next year at the earliest. As for copyrights, to tie in with the development of digital environment, the Commerce and Economic Development Bureau launched a public consultation exercise on updating Hong Kong's copyright regime at the end of last year. The consultation period ends today. The Government will carefully consider the views collected before introducing a bill to amend the Copyright Ordinance into the LegCo in the first half of this year.

65. The IPD will also actively explore with the Mainland authorities facilitation measures for cross-boundary IP protection; enhance its free IP Consultation Service, IP Manager Scheme PLUS and other training programmes; and collaborate with the Department of Justice to promote IP mediation and arbitration services. Besides, we will work with the Hong Kong Trade Development Council (TDC) and relevant stakeholders to promote Hong Kong's IP professional services through different channels.

(To be continued.)