

Budget Speech by the Financial Secretary (4)

Direction of Hong Kong's Economic Development

35. While we are amidst a new situation, new landscape and new norm of global politics and economies, we should maintain a clear and flexible mind, identifying the unique positioning of Hong Kong, grasping the opportunities, leveraging on and giving full play to our strengths.

Developing a Diversified Economy

36. Our economic development relies heavily on service industries. In particular, financial services, tourism, trading and logistics, and professional and business support services are the pillars of our economy and employment, collectively accounting for over 57 per cent of our GDP in 2017. These service industries share one thing in common, that is, they are highly susceptible to changes in the external economy. Any economic downturn in the major markets will deal a direct blow to these service industries and hence Hong Kong's economic outlook. As such, I believe Hong Kong should endeavour to diversify its economy. Apart from strengthening the industries currently enjoying competitive edges, we should identify new areas of growth by vigorously developing emerging industries. This will not only broaden the foundation of our economy, but also provide a wider range of quality employment opportunities for our young people to unleash their potential.

37. Owing to the lack of natural resources and high land and production costs, it is difficult for Hong Kong to revert to labour-intensive production industries or pursue land-demanding economic activities. We should therefore develop "talent-intensive" industries and focus on high value-added activities.

38. A holistic strategy is needed for the development of industries. We must recognise our positioning, strengths and weaknesses, and leverage Hong Kong's edges by utilising resources and policy measures. I will illustrate this by elaborating on two major areas, namely financial services and I&T.

Financial Services Industry

39. Hong Kong is the third largest financial centre in the world, ranked high in areas such as stock market, asset management and banking. We have a stable and flexible capital market with ample liquidity, free flow of capital, commodities and information, a wealth of talent, a sound legal system and an independent judiciary. These are the key attributes underpinning our success.

40. However, to cope with the increasing competition, we have set out a clear vision and blueprint for boosting the development of Hong Kong's financial

services industry. Apart from deepening and widening our financial markets, we need to further strengthen Hong Kong's role as a bridge linking the Mainland with the international market. We should not only seize the opportunities brought by the Greater Bay Area development and the Belt and Road Initiative, but should also eye on the world, particularly the Asian regions with potential for development. Moreover, we have to enhance the resilience of our financial system, further improve our regulatory regime to strengthen financial security, and increase investor confidence and protection.

41. We have been introducing reforms in various areas and made considerable progress. Aside from consolidating our strengths, we have developed new competitive edges to further enhance the overall competitiveness of our financial services sector.

Stock and Bond Markets

42. Hong Kong's capital markets are thriving. To enhance our attractiveness to the new economy sector, the Stock Exchange of Hong Kong launched a new listing regime last April, under which emerging and innovative enterprises with weighted voting rights structure, as well as pre-revenue or pre-profit biotechnology companies, are allowed to list in Hong Kong. By end-2018, seven enterprises had listed in Hong Kong under the new regime. Last year, we raised a total of \$286.5 billion through initial public offerings, the highest in the world for the sixth time over the past decade.

43. The Government has introduced a host of measures to promote the development of Hong Kong's bond market. These include launching the Pilot Bond Grant Scheme to encourage enterprises to issue bonds in Hong Kong, as well as offering tax concessions to attract more investors to our bond market.

44. To improve the quality of listed companies, legislation was enacted in January this year to expand the remit of the Financial Reporting Council (FRC), enhance the independence of the regime for auditors of listed entities and strengthen investor protection. I have decided to increase the amount of seed capital for the FRC to \$400 million to help it migrate to the new regime, and exempt the levy under the new regime for the first two years.

Green Finance

45. There is now a global shift towards sustainable development. To promote the development of green finance in Hong Kong and diversification of related products, the Government rolled out the Green Bond Grant Scheme last year to attract organisations to arrange financing for their green projects through our capital markets and encourage them to make use of the green finance certification services in Hong Kong. We are glad to see that many local, Mainland and even international organisations, such as the World Bank, the Asian Development Bank and the European Investment Bank, have chosen to issue green bonds in Hong Kong. Last year, green bonds issued in Hong Kong amounted to some US\$11 billion, more than triple that of 2017. Besides, we

are gearing up for the inaugural issuance of government green bonds and will encourage the relevant sectors to incorporate green elements into corporate governance and operation in a more effective manner.

Offshore Renminbi Business

46. Hong Kong is a global offshore Renminbi (RMB) business hub and the world's largest offshore RMB liquidity pool, processing more than 70 per cent of RMB transactions globally. We are also one of the busiest RMB foreign exchange trading centres. With the advantages of well-established market system and financial infrastructure, close ties with the Mainland market and the support of the Central Government, Hong Kong is set to become a premier platform for international investors to access the Mainland market and allocate RMB assets.

47. In collaboration with the industry and the Mainland authorities, we will continue to explore expansion of the channels for two-way flow of cross-boundary RMB funds. This will give us further room for exceling our distinct role in the Mainland's gradual liberalisation of the capital account, internationalisation of RMB and integration with global financial markets. We will continue to contribute to our country in opening up its financial market in an orderly manner.

(To be continued.)