

Budget Speech by the Financial Secretary (6)

International Financial Centre

129. A highly efficient financial market accelerates the development of the real economy by effectively matching capital with the needs of industry. The financial industry is one of the pillars of Hong Kong's economy. Hong Kong as an international financial centre is also our country's international financial centre, having an edge in "quantity" and "quality" that enables various financial areas to thrive.

Offshore Renminbi Business Hub

130. Our country is the world's second-largest economy. The proportion of RMB as a global currency for international trade, investment and financing, cross-border payment and reserves is increasing continuously, as the Mainland develops closer economic ties with other regions. Market demand for RMB is becoming keener than ever.

131. As the world's largest offshore RMB business hub, Hong Kong processes about 75 per cent of global offshore RMB settlement. We also have the world's largest offshore RMB liquidity pool, at over RMB 1 trillion. To capitalise on this enormous opportunity, we will press ahead with the development of an offshore RMB ecosystem to promote the internationalisation of the RMB in a steady and prudent manner.

132. We are taking forward relevant work on various fronts. It includes making continuous efforts to deepen mutual-market access schemes that facilitate RMB cross-boundary investment and two-way fund flows to enhance offshore RMB liquidity. It also includes encouraging financial institutions to provide more offshore RMB products and risk-management tools, and carrying out RMB financing in Hong Kong. We will also develop the Central Money Markets Unit (CMU) into Asia's major international central securities depository platform. It will provide better support for RMB businesses such as cross-border clearing, settlement and custodian services etc.

Mutual Market Access

133. Mutual-market access between financial markets in the Mainland and Hong Kong has been expanding in scope and capacity. Bond Connect, the Cross-boundary Wealth Management Connect Scheme, ETFs in Stock Connect and Swap Connect are among the many opportunities that have been implemented, one after another, in recent years. The initiatives provide more asset allocation and risk-management options for Mainland and international investors.

134. This year, HKEX will host the 10th Anniversary of Mutual Access Forum to share our experience with the industry and explore how best to inject new impetus into the regime. We will stage a series of roadshows in the Mainland

to promote mutual market access further.

135. We are now in discussion with Mainland authorities over the introduction of block trading, the inclusion of RMB counters under the Southbound Trading of Stock Connect, and the expansion of the mutual-market access regime to cover REITs, bringing in more enterprises and capital to the Hong Kong market.

Asset and Wealth Management Centre

136. Hong Kong is an international asset and wealth management centre, with assets under management amounting to more than HK\$30 trillion. It is also Asia's largest hedge-fund centre and the second-largest centre for private equity management after the Mainland. Currently, there are more than 250 open-ended fund companies and 780 limited partnership funds registered in Hong Kong.

137. To drive market development, the Government will extend the Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts for three years, and set up a task force to discuss with the industry measures for further developing the asset and wealth management industry.

138. Attracting global family offices and asset owners to Hong Kong will help bring in more capital and drive ancillary economic activities. We have implemented a number of measures, including providing tax concessions for qualifying transactions of family-owned investment holding vehicles managed by single family offices in Hong Kong, and streamlining the suitability assessment when dealing with sophisticated professional investors.

139. The new Capital Investment Entrant Scheme (new CIES) will soon invite applications. Eligible investors who invest HK\$27 million or more in qualifying assets and place HK\$3 million into a new CIES Investment Portfolio may apply to reside in and pursue development in Hong Kong. The new CIES will help strengthen our advantages in developing the asset and wealth management industry and related professional service sectors in Hong Kong, while supporting the I&T sector's development.

140. We are setting the stage for the second Wealth for Good in Hong Kong Summit in end-March in a bid to showcase Hong Kong's unique advantages to global family offices and asset owners. In addition, we will further enhance the preferential tax regimes for related funds, single family offices and carried interest, including reviewing the scope of the tax concession regimes, increasing the types of qualifying transactions and enhancing flexibility in handling incidental transactions, all to attract more funds and family offices with potential to establish a presence in Hong Kong.

Securities Market

141. We are keen to foster the development of the securities market into one with greater depth, breadth and vibrancy, thereby consolidating and enhancing market competitiveness. I have explained this in detail in paragraphs 45 to 48.

Bond Market

142. As a long-standing leader in bond issuance in Asia, Hong Kong has ranked first in the region for seven consecutive years in terms of the volume of international bond issuance. In the last Budget, I proposed to expand the scope of the Government Green Bond Programme to cover sustainable finance projects and take forward the Infrastructure Bond Scheme to raise capital for infrastructure projects, thereby facilitating the early completion of projects for the good of the economy and people's livelihood. We will set a borrowing ceiling of a total of \$500 billion for these two programmes to allow more flexibility in quota re-allocation. The sums borrowed will be credited to the Capital Works Reserve Fund for investment in projects which are conducive to long-term development. These two programmes will gradually replace the existing Government Bond Programme.

143. In 2024-25, we will issue \$120 billion worth of bond, of which \$70 billion will be retail tranche that includes \$50 billion worth of Silver Bond, and \$20 billion worth of green bonds and infrastructure bonds to achieve financial inclusiveness and enhance a "sense of participation" in infrastructure and sustainable development among the public.

Deepen Financial Co-operation in the GBA

144. The Cross-boundary Wealth Management Connect (WMC) Scheme in the GBA has seen continuous and steady development. "WMC 2.0" was officially launched earlier this week, introducing such enhancement measures as increasing the individual investor quota to RMB 3 million and lowering the threshold for participating in the Southbound Scheme.

145. To help enterprises secure financing in the GBA more easily, the HKMA and Mainland regulatory authorities will continue to build a collaborative framework on cross-boundary credit referencing. Through such collaboration, the banks of both places, upon consent from corporate customers, will be allowed to access the credit data of relevant corporations, so that credit assessment can be conducted in a more secure and efficient manner.

Specialty Insurance Market

146. As an international risk-management centre, Hong Kong provides diversified risk-management channels, including professional insurance services. We have been making dedicated efforts to invite Mainland and overseas enterprises to establish captive insurers in Hong Kong, enhancing their corporate risk-management capabilities. We are also promoting the development of insurance-linked securities (ILS) by establishing a dedicated regulatory regime and launching a pilot grant scheme. To date, we have facilitated the issuance of four catastrophe bonds in Hong Kong, one of which marked the inaugural listing of its type of ILS. We will continue to attract more issuing institutes to Hong Kong, while nurturing talent and propelling the industry's development.

Create Strong Impetus for Growth in the Financial Services Industry

147. To bolster the competitiveness and advantages of the financial services industry in Hong Kong, the Government will earmark \$100 million to promote the sustainable development of financial services. This includes green and sustainable finance, fintech, asset and wealth management, headquarters business, and risk management etc.

International Trade Centre

148. The international trade landscape is in a constant state of flux. In recent times, Hong Kong's total exports have seen their share of the Europe and US markets decline, while our exports to developing countries such as those in ASEAN and the Middle East is on the rise. At the same time, Mainland manufacturing enterprises are increasingly using production capabilities both at home and abroad as multinational supply chains for manufacturing products to be exported to overseas markets. Hong Kong is equipped to seize the opportunities arising from these changes.

Multinational Supply Chain Management

149. In line with the trend of Mainland manufacturing enterprises extending their production supply chains abroad, our goal is to develop Hong Kong into a multinational supply chain management centre. As a premier financial and commercial centre in the region, Hong Kong has the capacity to offer full-fledged and comprehensive professional support services to enterprises to meet their overseas business needs. These services are of utmost importance to enterprises seeking to go global, particularly those with less overseas experience.

150. Consulting services: The Hong Kong Trade Development Council (HKTDC) has been providing various services through different schemes covering business operations, production and supply chain solutions, market information and other consulting services. All this helps to support Mainland enterprises based in Hong Kong to establish a foothold in the Belt and Road (B&R) Initiative countries.

151. Trade financing: Mainland enterprises with operations in Hong Kong can also utilise various services provided by the Hong Kong Export Credit Insurance Corporation, including export credit insurance, surveys on buyers, and sharing of market updates to meet their business operation needs. The Commercial Data Interchange launched earlier by the HKMA and its Project mBridge allow enterprises to apply trade financing and cross-border settlement services at a lower cost and with higher efficiency.

152. Corporate training: Hong Kong's business sector possesses rich knowledge and profound experience in managing multinational supply chains as well as handling compliance, labour protection, environmental protection and other requirements of overseas markets. We will facilitate collaboration between different organisations and industry stakeholders to provide environmental, social and corporate governance (ESG) training etc. to Mainland enterprises seeking to expand their reach to overseas markets. This will help them build goodwill with business partners and expand their markets.

153. In order to enhance our work on this front, Commerce and Economic Development Bureau, in coordination with "Team Hong Kong" organisations, will work together to study relevant details, including the establishment of a trade single window to provide one-stop services for enterprises. Invest Hong Kong will also step up efforts to attract Mainland manufacturing enterprises to set up offices in Hong Kong, to serve as headquarters for managing their offshore trading.

Explore Markets

154. The Government has been expanding Hong Kong's economic and trade network overseas, to help the business sector explore emerging markets.

155. To strengthen our economic and trade relations with the Middle East, the Government is conducting negotiations with Saudi Arabia on an Investment Promotion and Protection Agreement (IPPA) and considering establishing an Economic and Trade Office (ETO) in Riyadh, Saudi Arabia. Two consultant offices will also be set up in Turkey and Egypt this year to bring in foreign capital and enterprises. Meanwhile, Hong Kong has concluded the IPPA negotiations with Bahrain and will soon sign a Comprehensive Double Taxation Agreement with it.

156. ASEAN is another priority strategic partner with whom we seek to enhance our engagement. The Government is considering establishing an ETO in Kuala Lumpur, Malaysia. As for other markets, we are negotiating a Free Trade Agreement with Peru and an IPPA with Bangladesh. Furthermore, the HKTDC will set up two consultant offices along the B&R to enhance trade promotion in emerging countries.

Belt and Road

157. The B&R Initiative promulgated by our country has entered its second golden decade. Hong Kong will continue to give full play to its role as a functional platform for the B&R. To this end, we will actively participate in and contribute to fostering high-quality development, especially in green development as well as innovation and technology.

158. Apart from continuing to host the annual Belt and Road Summit in September, a new Belt and Road Festival will be launched. The festival will promote collaboration with B&R countries in a wide range of areas including trade and investment, technology, arts and culture and talent exchange. Hong Kong will also host the Conference of Belt and Road Initiative Tax Administration Cooperation Forum, which will be attended by representatives of the governments, international organisations, academic institutions and strategic enterprises of B&R regions. It will provide a platform for attendees to establish connections and exchange ideas, thereby promoting tax administration co-operation and capacity building. Besides, more outbound missions will be organised, including visits to the Mainland for enterprises of B&R countries which are operating in Hong Kong to explore business opportunities.

Regional Intellectual Property Trading Centre

159. The effective protection and efficient transaction of IP is important to promote industries such as R&D, cultural and creative industries, design services, and brand licensing industries in Hong Kong. In fact, for the past three years, the Intellectual Property Department (IPD) granted an average of more than 10 000 standard patent registrations each year, which is a clear indication of the enormous potential of the IP trading market in Hong Kong.

160. The Government will introduce into the Legislative Council (LegCo) in the first half of 2024 a proposal to amend the Inland Revenue Ordinance with a view to implementing the "patent box" tax incentive, which will reduce substantially the tax rate for profits derived from qualifying IP to five per cent. This incentive aims to encourage enterprises to devote more resources to R&D and conduct commercialisation transactions making use of patents and other IP protections.

Participate in Dedicated Programme of World Intellectual Property Organisation (WIPO)

161. We are planning for the establishment of a WIPO Technology and Innovation Support Centre (TISC) in Hong Kong to enable our integration into the country's TISC network. The TISC will focus on providing specialised services such as patent search and analysis for the protection of scientific research results and enhanced support to the I&T sector, while promoting IP trading at the same time. The TISC also helps nurture local I&T talent well versed in patent knowledge. In this regard, I have set aside \$45 million to support the Hong Kong Productivity Council in establishing and operating the TISC. It is anticipated that the TISC will commence operation by 2025 the earliest.

(To be continued.)