

# LCQ1: Problems in economic development of Hong Kong

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (November 7):

Question:

Recently, several think tanks and economists have coincidentally pointed out that with dark clouds of a trade war between China and the United States (US) hovering, there are concerns about the way forward for the Hong Kong Special Administrative Region (SAR) in the context of national development strategies and international politics. In the event that the US authorities take any targeted measures, Hong Kong may lose the tariff exemption arrangement for its exports to US. They are also worried that the reclamation works for the construction of artificial islands under the "Lantau Tomorrow Vision" announced in this year's Policy Address may cost hundreds of billions, or even trillions, of dollars (i.e. the bulk of the fiscal reserves), which may undermine the confidence of foreign investors in, and cause depreciation in the value of, the Hong Kong dollar and induce attacks on the Linked Exchange Rate (LER) System by foreign exchange speculators. In this connection, will the Government inform this Council:

(1) whether it has studied how Hong Kong should position itself while it is caught in the long-standing political arm-wrestling and trade war between China and US, so as to align itself with the national strategic initiatives on the one hand and strive for the continuation of the various types of preferential treatments on tariffs, visas, etc. that Hong Kong has been enjoying for many years on the other;

(2) of the mechanisms put in place, and the officials and policy bureaux tasked, by the SAR Government to study matters relating to the positioning of Hong Kong's development; the corresponding policy bureaux, officials or mechanisms in the SAR Government to conduct appropriate discussion and consultation with the various think tanks and academics regarding the findings of their studies and their recommendations on the positioning of Hong Kong's development in the context of national policies and international politics;

(3) given that the detention of a former Hong Kong senior official by the US authorities for an alleged offence of brokering arms transactions, the inclusion of five locally registered companies in the sanctions list by the US authorities for their alleged role in aiding North Korea in evading international embargoes, and the SAR Government's refusal to renew the work visa of a journalist of the Financial Times, have aroused international concerns, whether the Government has assessed how the ongoing development of those incidents will affect Hong Kong's economy, including whether such

incidents will trigger the US authorities to take targeted measures by imposing punitive tariffs on SAR's exports, and made a truthful report of the assessment results to the Central Authorities as soon as possible; and

(4) whether it has studied if spending a substantial amount of the fiscal reserves on implementing the "Lantau Tomorrow Vision" will undermine the confidence of foreign investors in, and cause depreciation in the value of, the Hong Kong dollar and induce attacks on the LER System by foreign exchange speculators, as well as the corresponding countermeasures?

Reply:

President,

Having consulted the Development Bureau and the Financial Services and the Treasury Bureau, our consolidated reply for the four parts of the question is as follows:

Hong Kong enjoys unique status and advantages under the Basic Law and "one country, two systems". According to Article 116 of the Basic Law, the Hong Kong Special Administrative Region is a separate customs territory. Article 151 of the Basic Law provides that Hong Kong may participate in international organisations, including participation in the World Trade Organization (WTO) as a separate member and maintaining economic and trade relationships with the other 163 members of the WTO.

We have been promoting Hong Kong's unique advantages to the world and promoting bilateral and multilateral ties through various channels, such as overseas visits of government officials and overseas Economic and Trade Offices (ETOs). Since taking office in July last year, the Chief Executive has attended a number of international conferences and paid visits to more than ten countries. Similarly, the Secretary for Commerce and Economic Development has also actively participated in international conferences and paid visits to a number of countries, including his visit to Washington DC, the United States (US), in September 2018, during which he met with government officials, members of the Congress, think tanks as well as the business community, and explained clearly Hong Kong's unique status under the Basic Law.

Hong Kong's unique status under the Basic Law is well recognised and respected by the international community. Building on this foundation, Hong Kong's trading partners around the world have been conducting trade, commerce and investment with us. This is evident from the setting up of regional headquarters by international companies in Hong Kong. We provide a level playing field for all companies. Together with our competitive and the most free and open business environment, Hong Kong has always been commended by the international community.

As for the Hong Kong-US economic and trade relation, since Hong Kong's return to the Motherland, the US has continued to maintain and expand economic and trade ties with Hong Kong based on our unique status. The US

side also reiterated earlier that the US continues to have deep economic and cultural interests in Hong Kong. Counting on the basis of individual economies, the US is Hong Kong's 2nd largest merchandise trading partner in the world, while Hong Kong is the US' 9th largest export market. According to US statistics, the total merchandise and services trade between the US and Hong Kong in 2017 reached US\$69 billion. The US has been enjoying the highest trade surplus with Hong Kong among its global trading partners, valued at US\$34.5 billion in 2017, of which US\$32.5 billion was surplus in merchandise trade. In addition, Hong Kong and the US maintain close investment relations. In 2016, the US was the 6th major source of inward direct investment into Hong Kong while the US was the 8th major destination of outward direct investment from Hong Kong. It is in the US and Hong Kong's mutual interest to maintain and promote our bilateral relations. The Government will continue to enhance Hong Kong's economic and trade ties with the US.

Nevertheless, since the beginning of this year, the US has initiated conflicts in international trade, trade protectionism has risen, and the trade conflict between China and the US has been escalating. Apart from the direct impact on trade in goods, the impact on Hong Kong as a whole and on the global economy has begun to emerge. The uncertainties of the external environment have increased markedly, and the global economy as well as trade and investment sentiment have also deteriorated. Although the current economic data are still good, the outlook is not optimistic. Many institutions have lowered their forecasts for global economic growth next year and Hong Kong economy cannot stay immune.

The Government has been closely monitoring developments of the China-US trade conflict and their impact on Hong Kong economy, maintaining close communication and exchanging information with the trade, and responding promptly to their needs. In the short to medium term, the Government has announced and implemented a number of targeted measures in response to the trade's needs, including strengthening various SME funding schemes to assist the trade in market promotion and development of the Mainland and the Association of Southeast Asian Nations (ASEAN) markets; enhancing the special concessionary measures of the SME Financing Guarantee Scheme operated by the HKMC Insurance Limited to further alleviate the financing burden of local enterprises; strengthening protection of Hong Kong exporters affected by the US tariff measures through the Hong Kong Export Credit Insurance Corporation; and assisting the trade to develop markets and transfer production base through the Hong Kong Trade Development Council.

In the medium to long term, as pointed out by the Chief Executive in her Policy Address, leveraging on our unique strength under "one country, two systems", we will continue to respect economic principles, uphold operation of the market and promote free trade. We will also strive to develop new areas of economic growth. The National 13th Five-Year Plan pledges support for Hong Kong to reinforce and enhance its status as an international financial, transportation and trade centre; develop its innovation and technology industry; and establish itself as a centre for international legal and dispute resolution services in the Asia-Pacific region. The Belt and

Road Initiative of our country as well as the Guangdong-Hong Kong-Macao Greater Bay Area development have brought enormous opportunities for the economic development of Hong Kong. The Government will do its best as a "facilitator" and "promotor", seizing opportunities to capitalise on Hong Kong's strengths to serve the country's needs, and seeking active liaison with the world to explore more business opportunities.

At the international level, the Government will continue to actively forge free trade agreements (FTAs) and investment agreements with our trading partners. We have already signed FTAs with ASEAN and Georgia respectively and have concluded negotiations with the Maldives. Our bilateral negotiations with Australia are ongoing, and we will explore FTAs with the United Kingdom and the Pacific Alliance and seek accession to the Regional Comprehensive Economic Partnership. We will also expand our network of ETOs, and we expect to set up the ETO in Bangkok early next year and the ETO in Dubai as soon as possible. We will continue our discussion with the respective governments on setting up the ETOs in Moscow, Mumbai and Seoul.

Regarding the "Lantau Tomorrow Vision" promulgated by the Government, the major consideration is the long-term development need of Hong Kong. The Government does not have an estimate of the relevant project cost at this stage. Since the proposed projects will be implemented in phases, the project cost will be spread over many years. In formulating the implementation strategy for the "Lantau Tomorrow Vision", the Government will take into account relevant factors like the fiscal sustainability and conduct detailed financial assessment to ensure that the project expenditure is fiscally affordable by the Government.

As for the Linked Exchange Rate System (LERS), it has served as a strong anchor for Hong Kong's monetary and financial stability. It has proved to be highly resilient in a series of regional and global financial crises. We will continue to uphold our firm commitment to ensuring the effective operation of the LERS in maintaining monetary and financial stability of Hong Kong.