

# LCQ8: Maintaining Hong Kong's status and competitiveness in international community

Following is a question by Dr the Hon Lo Wai-kwok and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (April 28):

Question:

The National People's Congress made decisions, in May last year and March this year respectively, on implementing the National Security Law for Hong Kong in the Hong Kong Special Administrative Region (SAR) and improving the electoral system of SAR. The governments of certain western countries have alleged the relevant decisions to be in violation of the "one country, two systems" and the Basic Law, and imposed sanctions on certain SAR Government officials and organisations. In this connection, will the Government inform this Council:

(1) whether it has taken measures to refute the allegation, including explaining to government offices of foreign states in Hong Kong, the International Monetary Fund, international rating agencies, Hong Kong's major trading partners and chambers of commerce that such move of the Central Authorities has plugged loopholes of SAR's system, which can ensure the steadfast and successful implementation of "one country, two systems"; if so, of the details; if not, the reasons for that;

(2) of its new thinking on enhancing Hong Kong's capability of responding to the complex and volatile international political and economic environment, and better seizing the opportunities of post-pandemic economic development; and

(3) given that Hong Kong has been implementing a low and simple tax regime, what strategies the Government has put in place to deal with the situation where governments of various countries, in response to the recent appeal of the United States Government, jointly set a uniform minimum rate of corporate profits tax that is applicable to multinational companies, so as to prevent Hong Kong's competitiveness from being undermined?

Reply:

President,

Having consulted the Chief Secretary for Administration's Office, the Financial Secretary's Office, the Constitutional and Mainland Affairs Bureau, the Financial Services and the Treasury Bureau, the Security Bureau, and the Information Services Department (ISD), the consolidated reply to the question raised by Dr the Hon Lo Wai-kwok is as follows:

(1) The Hong Kong Special Administrative Region (HKSAR) Government places high importance on external engagement. On the one hand, through the efforts of the abovementioned bureaux and departments, as well as the overseas Economic and Trade Offices (ETOs), the Government has, as a whole, actively engaged in external promotion on Hong Kong's advantages to bolster Hong Kong's international image. On the other hand, the Government has regularly disseminated the latest information on Hong Kong to overseas communities through different channels and responded to biased reports to ensure that interlocutors have a proper understanding on Hong Kong's situation. With the rising geopolitical tensions in recent years, some overseas stakeholders have hyped issues on Hong Kong, making unfair comments and reports on issues including the implementation of the National Security Law and improving the electoral system, which has definitely affected Hong Kong's international image adversely. The Government has therefore made strenuous efforts in stepping up our relevant work.

Following the passage of "the Decision on establishing and improving the legal system and enforcement mechanisms for the HKSAR to safeguard national security" by the National People's Congress on May 28, 2020, as well as the National Security Law by the Standing Committee of the National People's Congress on June 30, 2020, the HKSAR Government actively explained to the international communities and overseas stakeholders the legal basis for the National Security Law through different channels, and promptly rebutted the corresponding false allegations by foreign countries to dispel misconceptions, including issuing press releases immediately through the ISD and ETOs to clarify the issues, publishing promotional pamphlets, placing newspaper advertisements, arranging principal officials from relevant policy bureaux to take part in media interviews, and to meet with the Consul-General in Hong Kong, major foreign chambers of commerce, and overseas stakeholders, etc. It was emphasised that the National Security Law is beneficial to political and social stability of Hong Kong and conducive to maintaining Hong Kong's investment and business environment in the long run, and that the legislation will not adversely affect the rights and freedoms enjoyed by Hong Kong residents in accordance with the law.

As for the decision by the National People's Congress on improving the electoral system of the HKSAR, the HKSAR Government has so far held over 110 briefing sessions for various sectors, especially chambers of commerce and the financial sector to brief them on the background, principles and major content of improving the electoral system. The Government will continue to strengthen its explanatory and publicity work so that different sectors of the community will recognise the necessity and urgency of improving the electoral system as well as support the relevant work.

ISD has also been closely monitoring reports in the mass media and messages posted on major social media platforms. When it comes to its knowledge that rumours relating to the Government or false information are being widely circulated, the ISD would immediately make clarifications through various channels to curb the spread of rumours and address public concerns, including arranging relevant officials to explain to the media, and

disseminating widely the correct information on the internet and social media platforms.

In addition, from June 2020 to end-March 2021, the ETOs have organised over 20 webinars for the Chief Executive and principal officials to conduct direct dialogue with various overseas stakeholders, including think tanks, academic institutions, as well as business organisations, to explain to them the situation in Hong Kong and directly address their concerns on the National Security Law. To maintain the confidence of the overseas communities in Hong Kong, it was emphasised to the audience that the legislation is fully justified and legitimate, with stability restored in Hong Kong and the rights and freedoms enjoyed by Hong Kong residents in accordance with the law will continue to be upheld. In the meantime, the ETOs have proactively engaged the overseas communities through their network, providing updated information and explanation on Hong Kong's latest situations to their interlocutors, as well as issuing articles and responding to reports in a number of local media on the relevant subjects to dispel misconception.

(2) Against the background of rising protectionism in recent years, coupled with the unprecedented challenge to global economy brought about by the pandemic, the HKSAR Government will continue to proactively integrate into the overall development of the country to better seize the opportunities arising from national development and post-pandemic economic recovery. "The Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035" (the 14th Five-Year Plan) adopted on March 11, 2021 sets out various measures on supporting Hong Kong to consolidate and enhance competitive advantages as well as to better integrate into the overall development of the country, and on proactively and progressively taking forward the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). Under the new development pattern which takes the domestic market as the mainstay while enabling domestic and foreign markets to interact positively with each other, and with the support of the 14th Five-Year Plan, Hong Kong's development opportunities are evident. Currently, the HKSAR Government is working at full steam on disease prevention and control, and proactively on vaccination for members of the public. Once the epidemic subsides later, given Hong Kong's own advantages and the advantages under the "one country, two systems" principle, the city will be able to proactively become a participant in domestic circulation and a facilitator in international circulation. We will take the GBA development as the best entry point to better integrate into the overall development of the country, which will bring continuous impetus to Hong Kong's economy.

The 14th Five-Year Plan also supports the HKSAR Government in continuing to foster co-operation and exchanges with countries and regions around the world, and fully utilising its unique status and advantages. In particular, Hong Kong will continue to make the best use of the advantages under the "one country, two systems" principle to tap into the business opportunities brought about by the twin engines of the country's economic development in the Belt and Road Initiative and the GBA development, while striving to establish close economic and trade relations with other economies including

developing mutually beneficial economic and trade relations with economies around the world by leveraging on Hong Kong's status as a separate customs territory conferred by the Basic Law; continuing with the expansion of ETO network to enhance trade and economic relations between Hong Kong and its trading partners; promoting proactively regional economic co-operation and engaging member economies of the Regional Comprehensive Economic Partnership with a view to commencing early discussions on Hong Kong's accession.

(3) The international community has been actively promoting the prevention of cross-border tax evasion in recent years. Jointly championed by the Organisation for Economic Co-operation and Development (OECD) and G20, the OECD sought to counter the base erosion and profit shifting (BEPS) activities of multinational enterprises (MNEs) by promulgating in October 2015 the BEPS action plans. As an international financial and trading centre, Hong Kong has implemented all necessary measures as required under the BEPS action plans.

The OECD is now working on proposals to address the BEPS risks arising from the digitalisation of economy (BEPS 2.0 proposals), which include a global minimum tax rate. The global minimum tax rate targets those large MNEs with global revenue exceeding a specified threshold. If the tax paid by an MNE in a particular jurisdiction is lower than the global minimum tax rate, its parent company or subsidiary will be subject to additional taxes imposed by the jurisdiction where it is located. The target of the OECD is to reach a global consensus on the key policy features of the BEPS 2.0 proposals by mid-2021.

To formulate response measures, the Government set up an Advisory Panel in June 2020 to review the possible impact of the BEPS 2.0 proposals on the competitiveness of the business environment of Hong Kong, and to make recommendations to the Financial Secretary on how to facilitate the sustainable development of Hong Kong as an international financial, trading and business centre in light of the changing international tax landscape. The Advisory Panel has consulted stakeholders from the business sector. Taking into account the preliminary views of the Advisory Panel, the Financial Secretary presented in the Budget this year the direction of the Government's response measures. The Financial Secretary indicated that Hong Kong would actively implement BEPS 2.0 according to international consensus while striving to maintain the key advantages of our tax regime, namely simplicity, certainty and fairness; minimise the compliance burden on the affected enterprises; and continue to enhance the business environment and competitiveness of Hong Kong. The Advisory Panel on BEPS 2.0 will submit a report to the Government after the BEPS 2.0 proposals are finalised. The Government will then carefully study the report with a view to formulating specific response measures.