

LCQ9: Positioning of Hong Kong's development

Following is a question by the Hon Paul Tse and written reply by the Deputy Financial Secretary, Mr Michael Wong, in the Legislative Council today (February 28):

It has been reported that a Mainland political scientist warned earlier on at a Guangdong-Hong Kong-Macao Greater Bay Area seminar that Hong Kong was "rapidly becoming isolated". In a recent newspaper feature interview, the Provost and Deputy Vice-Chancellor cum Chair Professor of Economics of the University of Hong Kong also indicated that the established industries in Hong Kong were facing difficulties and were even dying. On the other hand, there are views that the implementation of the new 30-day mutual visa-free arrangement (the new arrangement) between China and Singapore this month has facilitated the entry of Mainland talents and capital into Singapore for travel, property acquisition and investment, which has in effect strengthened and favoured the competitive advantage of Singapore vis-à-vis Hong Kong. Some commentators on current affairs have even pointed out that the new arrangement is only the first step, and it is Beijing's strategic goal to let Singapore become another fundraising window in place of Hong Kong. In this connection, will the Government inform this Council:

(1) as there are views pointing out that with a number of western countries already regarding Hong Kong as a "Mainland city" and Mainland cities regarding Hong Kong as a competitor, Hong Kong is facing "internal and external ordeals", how the authorities identify development directions;

(2) in the light of some experts' views pointing out that the four pillar industries which used to be on the lips of government officials have "fallen" one after another, and the innovation and technology industries in which investment has been made at all costs have not been seen yielding significant economic returns, how the Government, in the face of the established industries which are said to be "dying", separates the wheat from the chaff and makes good use of the increasingly tight public money to make appropriate investment, so as to bring returns to the Treasury; and

(3) as some members of the public are concerned that Mainland residents' entry into Hong Kong is currently subject to visa restrictions, whereas the new arrangement allows Mainland residents to enter Singapore visa-free for 30 days, whether the authorities have studied the possible negative economic impacts of the new arrangement on Hong Kong's tourism, commerce and trade, investment, etc., so as to relay the matter to the Central Authorities and gain an understanding of the reasons for that?

Reply:

President,

In recent years, the global political and economic situation has been fraught with uncertainty, and the global economy exposed to multiple risks. As a small and open economy, Hong Kong faces a number of challenges. Nevertheless, thanks to our solid foundation and the strong support of our motherland, Hong Kong remains vibrant and resilient. The Government is actively reinforcing Hong Kong's strengths, pursuing economic diversification and further improving its governance. Under the "one country, two systems", Hong Kong has the distinctive advantages of enjoying strong support of the motherland and being closely connected to the world. Hong Kong is still an international city abound with opportunities.

The Government welcomes constructive views and proposals from various sectors on how to drive Hong Kong's future growth and prosperity, and will listen to and study them carefully. However, we cannot agree with some over-pessimistic remarks and must rebuke them.

The reply to the various parts of the question is as follows:

(1) and (2) "One country, two systems" is not only the cornerstone of Hong Kong's prosperity and stability, but also a pillar of the ocean underpinning the further development of our city. Under "one country, two systems", Hong Kong's previous systems and way of life remain unchanged. With its robust legal and financial systems, low and simple taxes and global connectivity, Hong Kong offers a dynamic, safe, secure and convenient place for doing business. Over the past decade, Hong Kong has ranked among the top seven most competitive economies in the world. Furthermore, according to the World Investment Report 2023 released by the United Nations Conference on Trade and Development, Hong Kong was ranked as the fourth largest recipient of foreign direct investment in the world in 2022. The above figures fully reflect that Hong Kong has won international recognition.

In order to enable Hong Kong to better utilise its unique advantages, the Government established the Steering Group on Integration into National Development (Steering Group) at the end of 2022. The Steering Group strengthens top-level overall leadership, and promotes and supervises work on integrating into overall national development from a macro perspective. The Steering Group, chaired by the Chief Executive, actively dovetails with national strategies such as the National 14th Five-Year Plan, development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and high quality development of the Belt and Road (B&R) Initiative, and strengthens co-operation with different regions in the Mainland, thereby injecting continuous impetus to the growth of Hong Kong.

Being interdependent in nature, Hong Kong and Mainland provinces and municipalities can achieve greater synergy by supporting and complementing each other. At present, the Government has already established regional co-operation mechanisms with Beijing, Guangdong, Shenzhen, Shanghai, Fujian, Sichuan, Hubei, Chongqing and the Pan-Pearl River Delta region respectively. We will continue to deepen the co-operation with various Mainland provinces and municipalities by launching more initiatives on the existing co-operation

platforms and exploring the development of new co-operation platforms for utilising Hong Kong's strengths proactively.

The GBA is one of the most open and economically vibrant regions in the country. Being the most international city in the GBA, Hong Kong will play the important role as a core engine for regional development and proactively take forward the development of the GBA. The Government will continue to maintain close liaison with relevant central ministries and commissions, and work with the governments of Guangdong and Macao under the principles of complementarity to proactively seek policy innovations and breakthroughs, with a view to fostering the efficient flow of essential factors of production, such as flow of people, goods, capital and information within the GBA. This will create greater opportunities for Hong Kong people and enterprises seeking development in the Mainland cities of the GBA, and enhance interconnectivity among cities of the GBA.

Despite the highly uncertain external environment, Hong Kong will continue to benefit from the shift in global economic gravity from West to East. Under the new international landscape, Mainland and overseas enterprises are eager to explore Asian markets and identify locations for setting up regional headquarters. Being the only world-class city that capitalises on both the China advantage and the international advantage, Hong Kong serves as the bridge linking the Mainland and the rest of the world, as well as the springboard for overseas enterprises to access the huge Mainland market and for Mainland enterprises to go global. Hong Kong is the best choice at which Mainland and overseas enterprises choose to establish their presence. With the steady economic growth in the Mainland, Hong Kong is well-placed to play the roles as "super connector" and "super value-adder", thereby pursuing new directions and new opportunities for development.

"Eight centres" and "Four pillars"

We will continue our active integration into overall national development, and continue to consolidate and enhance Hong Kong's development in eight key areas (eight centres) as outlined in the 14th Five-Year Plan. The eight centres are the international financial centre, international innovation and technology centre, East-meets-West centre for international cultural exchange, international trade centre, international shipping centre, international aviation hub, centre for international legal and dispute resolution services in the Asia-Pacific region as well as regional intellectual property trading centre, providing impetus for sustaining our competitiveness and economic growth.

Financial services, tourism, trading and logistics, and professional services and other producer services are the four pillar industries in Hong Kong. According to the latest figures of the Census and Statistics Department, in 2022 the four key industries in the Hong Kong economy generated value added at \$1,538.8 billion, accounting for 56.3 per cent of the Gross Domestic Product, and employed 1 448 400 persons, accounting for about 40 per cent of total employment.

Financial services

As an international financial centre, Hong Kong's financial market is characterised by deep liquidity, diverse and comprehensive products and services, strong emphasis on investor protection, and effective and transparent regulations aligned with international standards that can meet various needs of investors and enterprises. Hong Kong is a major global listing platform and one of the world's leading biotech fundraising hubs. Hong Kong is also the second largest global banking hub in Asia and has the second highest insurance density in the world. Seventy three of the world's top 100 banks and 11 of the world's top 20 insurers operate in Hong Kong. In terms of arranging international bonds issued by Asian entities, Hong Kong has ranked first in the world for seven consecutive years, accounting for about one-third of the market in 2022. As for asset and wealth management, the industry in Hong Kong managed close to US\$4 trillion of assets as of end-2022. We are the largest hedge fund centre and the second largest private equity fund centre in Asia. In addition, Hong Kong has the largest offshore Renminbi (RMB) pool, handling about 75per cent of the global RMB settlements.

The Government will continue to expand the financial market and promote diversified development of related industries, strengthen the competitiveness of the stock market, deepen mutual access with the Mainland financial markets, promote financial co-operation in the GBA, support the asset and wealth management business, and facilitate the development of green finance and financial technology (fintech).

Tourism

Cross-boundary travel started to resume in February 2023. With the concerted efforts of the Government and the travel trade, visitor arrivals reached 34 million last year, far exceeding 25.8 million estimated in early 2023. The Government has been promoting the long-term and sustainable development of Hong Kong's tourism industry. The high-level Tourism Strategy Committee was set up earlier to solicit views of the relevant sectors and steer the speedy, high-quality and sustainable development of Hong Kong's tourism industry. To step up promoting the development of mega event economy, the Government will attract more world-class mega events to be staged in Hong Kong, and enhance promotion to raise public awareness of these events. It will also actively promote thematic travel to provide tourists with travel experiences that are richer in content, more in-depth and higher in quality.

The Government attaches great importance to the development of the tourism industry. In accordance with the four long-term development strategies under the Development Blueprint for Hong Kong's Tourism Industry (the Blueprint), namely develop a diversified portfolio of visitor source markets for Hong Kong, with a focus on attracting high value-added overnight visitors; nurture and develop tourism products and initiatives with local and international characteristics, including cultural tourism, heritage tourism, green tourism, and creative tourism; and to consolidate and enhance Hong Kong's status as a travel destination for meetings, incentive travels, conventions and exhibitions tourism, regional cruise hub, and events capital

of Asia;â€‹ develop smart tourism; as well as upgrade the service quality of the tourism industry, the Government will review and update the relevant initiatives and policies, and will formulate the Blueprint 2.0 to strengthen the positions of Hong Kong as an international tourism hub and develop the city into a world-class premier tourism destination.

Trade and logistics

Hong Kong enjoys the advantage of being a highly internationalised business centre and plays an important role in international trade. In 2022, Hong Kong's total merchandise trade value reached HK\$9,459.1 billion, which was the 10th highest in the world. The National 14th Five-Year Plan continues to support Hong Kong to enhance its status as an international trade centre, seamlessly integrate into the overall development of our nation, and foster complementary and synergistic development with the Mainland. The National 14th Five-Year Plan also supports Hong Kong's participation in and contribution to the nation's comprehensive opening up and development of a modern economic system, the establishment of a functional platform for the joint development of the B&R Initiative, and co-operation and exchanges with countries and regions around the world.

The Government will continue to proactively develop a more stable, open, inclusive, and mutually beneficial international economic and trade environment based on multilateral trade standards, strengthen our role under international circulation as a connecting platform between our nation and the rest of the world and as a key link of the B&R, in particular, in connecting the GBA and the Association of Southeast Asian Nations, promoting the economic and trade flows of the Mainland and other economies in the region, and contributing to the further opening up and internationalisation of the nation's trade activities.

With a comprehensive air, land and sea transport network, Hong Kong has become an international aviation hub, an international shipping centre and an international logistics centre. To strengthen its position as an international air cargo hub, the Airport Authority Hong Kong is working with Dongguan to promote the "sea-air intermodal cargo transshipment" mode, and reached an agreement with the United Parcel Service of America in the second half of 2023 to develop a new hub facility at Hong Kong International Airport.

On the maritime and logistics front, the Government promulgated the Action Plan on Modern Logistics Development and the Action Plan on Maritime and Port Development Strategy last year, with strategies and action measures formulated to support the development of the maritime and logistics industries. In particular, the Government launched the Professional Training on Smart and Green Logistics Scheme and the Logistics Promotion Funding Scheme in January this year to enhance manpower development and promotion of the logistics industry, and enhanced the Pilot Subsidy Scheme for Third-party Logistics Service Providers in February this year to assist the industry in grasping the business opportunities arising from the smart logistics and e-commerce. We will also dispose of a total of four parcels of logistics land

regularly from this year to meet the industry's demand for logistics land. The Government will continue to take forward the implementation of the two Action Plans in an orderly manner, with a view to consolidating Hong Kong's status as an international maritime centre and an international logistics hub.

Professional services

As for professional services, the Government set up the \$200 million Professional Services Advancement Support Scheme (PASS) in 2016 to provide funding support for Hong Kong's professional services sectors to carry out exchange, promotion and professional standard enhancement projects with their counterparts in external markets (including the Mainland), to promote related publicity activities for Hong Kong's professional services, and to enhance their standards and external competitiveness. So far, over 100 projects with a total PASS grant of \$71 million have been funded.

Furthermore, to encourage Hong Kong's professional services sectors to step up promotion of Hong Kong's competitive edges and professional services to the external markets after the pandemic stabilised, the Government set aside \$50 million under PASS to set up the Professionals Participation Subsidy Programme (PSP) to subsidise the participation of Hong Kong's major professional bodies in relevant activities organised by the Government and the Hong Kong Trade Development Council. So far, a total of nine activities, covering the United Kingdom, the United States, Southeast Asia and various Mainland cities, have been approved under PSP, benefitting over 200 local professionals and around \$2 million has been committed for the above activities.

Promoting the development of innovation and technology

Promoting the development of innovation and technology (I&T) is the direction for Hong Kong's future development. In recent years, the Government has devoted substantial resources to various areas such as artificial intelligence and big data, biotechnology, medical sciences, advanced manufacturing and new materials as well as fintech. We will continue to adopt an industry-oriented approach to expedite the development of sectors enjoying advantages and build a more vibrant I&T ecosystem in Hong Kong, with a view to charting Hong Kong in moving towards the vision of being an international I&T centre.

The Government is actively planning for and developing new land and facilities to provide room for the development of the I&T industry. The Hong Kong-Shenzhen Innovation and Technology Park (HSITP) in the Loop brings together I&T talent and expertise of the two places. These, together with advanced infrastructure and top-notch research facilities, will create limitless business opportunities for enterprises and hence foster the economic development. The first three buildings in batch one under the first phase of the HSITP will be completed in phases from the end of 2024. The HSITP Limited is actively taking forward business promotion work, with a view to attracting outstanding I&T enterprises to set foot in the park.

Construction of the remaining five buildings of batch one will commence as soon as possible.

Together with the HSITP in the Loop, San Tin Technopole will provide about 300 hectares I&T land capable of generating 7 million square metres of gross floor area, which in terms of size, is equivalent to 17 Hong Kong Science Parks. It will become a hub for clustered I&T development, contributing to the development of the South-North dual engine (finance – I&T) for Hong Kong. The outlook of I&T development is promising.

Trawling for enterprises and talent

The promotion of industry development requires enterprises and talent. The Government, while consolidating Hong Kong's strengths, has been actively employing strategies to compete for enterprises and talent, with a view to attracting strategic enterprises as well as talent and capital from across the globe. The Office for Attracting Strategic Enterprises has, since its establishment in 2022, engaged more than 200 strategic enterprises, and around 30 strategic companies from the Mainland and overseas have landed or expanded in Hong Kong, or are about to do so. It is anticipated that they will invest over \$30 billion and create more than 10 000 jobs, thereby bringing real economic and social benefits to Hong Kong.

On the other hand, Invest Hong Kong assisted 382 Mainland and overseas companies in setting up or expanding their business in Hong Kong in 2023, an increase of 27per cent over the year before (300 companies). Most of the companies are from the Mainland, United Kingdom, US and Singapore and in such industries as finance, fintech, I&T and professional services. This demonstrates Hong Kong's attractiveness to enterprises as an international business centre.

On talents, the Government has introduced a series of measures to proactively attract global talents since end-2022, including launching the Top Talent Pass Scheme to trawl for talents with high income and graduates from top universities. These measures have received positive responses since implementation. As at end-January 2024, more than 240 000 applications were received under various talent admission schemes, and the total number of applications received last year is a nearly fourfold increase as compared to 2022. These figures are testament to Hong Kong's attractiveness to talents across the globe. The Government will continue to make proactive efforts to attract talents from around the world, with a view to contributing to the long term development of Hong Kong.

(3) Under Article 22(4) of the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, "for entry into the Hong Kong Special Administrative Region, people from other parts of China must apply for approval". Mainland residents who wish to visit Hong Kong for whatever reasons are required to obtain a permit with an endorsement from the relevant Public Security Bureau Office. The Government has been maintaining communication with the Central Government with regard to various entry policies.

On tourism, the Individual Visit Scheme (IVS) has been implemented since July 2003 in accordance with the main document of the Mainland and Hong Kong Closer Economic Partnership Arrangement. Residents from a total of 49 designated Mainland cities can apply for IVS endorsements to visit Hong Kong in their individual capacity.

Mainland residents who wish to make business trips to Hong Kong are required to obtain an endorsement for business visit from the relevant Public Security Bureau Office. Endorsement for business visit is good for either a single journey or multiple journeys to Hong Kong within its validity from three months up to one year.

The Government has been closely monitoring the implementation of various measures, conducting timely reviews of their effectiveness and making necessary adjustments as appropriate. For instance, the Government has been paying attention to and assessing Hong Kong's capacity to receive visitors, including areas such as the handling capacity of boundary control points, capacity of tourism facilities, receiving capacity of hotels, carrying capacity of the public transport network, impact on the livelihood of the community and economic impact.

Hong Kong's capacity to receive tourists has been enhanced following the completion and optimisation of various large-scale cross-boundary infrastructure, tourist facilities, hotels and public transportation networks in the past few years. The Government is confident in providing more tourists from different source markets with quality travel experiences. Besides, since the Travel Industry Authority, the regulatory body of the travel industry, came into operation in September 2022, through its licensing and regulation mechanism and constant monitoring of the operation and management of tour groups, the impact of tourists' activities on residents' daily life has been mitigated.

The Government will continue to maintain communication with relevant Mainland authorities to enhance the IVS in an orderly manner, with a view to providing Mainland visitors with more convenient and flexible means to visit Hong Kong and enriching their travel experience, thereby facilitating the vibrant development of tourism-related industries. On February 23, 2024, the Government announced the Central Government's positive response to the proposal of further expanding the eligible cities of the IVS to Xi'an in Shaanxi Province and Qingdao in Shandong Province starting from March 6, 2024.