

Speech by CE at Joint Business Community Luncheon (English only) (with video)

Following is the speech by the Chief Executive, Mrs Carrie Lam, at the Joint Business Community Luncheon held at the Hong Kong Convention and Exhibition Centre today (October 31):

Jonathan (Chairman of the Chinese General Chamber of Commerce, Dr Jonathan Choi), Aron (Chairman of the Hong Kong General Chamber of Commerce, Dr Aron Harilela), Daniel (Chairman of the Federation of Hong Kong Industries, Mr Daniel Yip), Dennis (President of the Chinese Manufacturers' Association of Hong Kong, Dr Dennis Ng), Mr Gao (Chairman of the Hong Kong Chinese Enterprises Association, Mr Gao Yinxin), Philippe (Vice-Chairman of Belgium-Luxembourg Chamber of Commerce, Mr Philippe Latour), friends from the business community, distinguished guests, ladies and gentlemen,

Good afternoon. It gives me great pleasure to be at this luncheon for the third time, and to meet you all once again. I'm particularly indebted to the organisers for advancing the lunch to noon so that I could catch my flight to Shanghai later this afternoon.

It has been customary since 1997 for the Chief Executive to attend this business luncheon and speak about the annual Policy Address. Though I have taken an unconventional step to host a lunch at the Government House in July this year for our business chambers to reciprocate their hospitality, I'm still not going to deviate from the long-held tradition of coming here to speak. As you will appreciate, this year's Policy Address was prepared amid an ongoing, unprecedented unrest in society. I and my colleagues have been making every effort to help Hong Kong ride out this storm over the past few months, so inevitably we could not devote as much time as we would like to this Policy Address. But still, as both Mr Gao and Dennis mentioned earlier on, we managed to put forward over 220 new initiatives, with many of them included not in my Policy Address text but in the Policy Address Supplement.

The Policy Address Supplement itself is a new attempt, because we are right in the middle of our five-year term. Replacing the traditional Policy Agenda, this Supplement does not only set out the new initiatives to be rolled out by the Government in the coming years, but also highlights the progress made. As I mentioned, we have passed about half of a term, so it's a good occasion to account for what we have achieved in the last two years or so. We also highlight our beliefs in different policy areas, the progress made, and the challenges faced by Hong Kong. As far as economic development is concerned, which will be the focus of my speech in the next 10 minutes or so, my belief is to maintain Hong Kong's competitiveness by consolidating our existing strengths, exploring new advantages, expanding economic and trade ties with the world, and fostering closer exchange and co-operation with the

Mainland.

Last year when I spoke at this luncheon, I described the 2018 Policy Address as a pro-business Policy Address. The chapter on "Diversified Economy" was the most substantive section in the Policy Address last year, taking up almost 22 per cent of the words. In fact, in the first two years of my term, I put the emphasis in my Government being a facilitator and a promoter, and put in place many initiatives to facilitate the work of the business, including two tax reduction measures – the two-tiered profits tax to assist SMEs and the super tax deductions to incentivise private companies to invest in R&D. During that period, I and my Principal Officials, notably the Financial Secretary and the Secretary for Commerce and Economic Development, had led business delegations to our overseas markets and the Mainland. I still have very fond memories of our joint promotional Hong Kong events in London, Tokyo, Bangkok, etc, and in attending together with many of you the Belt and Road International Summit in Beijing and the inaugural China International Import Expo in Shanghai. Together with many of you from the business chambers, we proudly tell the Hong Kong story.

The situation we are facing now is obviously very different, more challenging and inevitably distressing. The challenges ahead are complicated both externally and locally. Externally, the China-US trade disputes and conflicts in the technology arena have increased the downside risks facing the global economy. The International Monetary Fund recently revised the global economic growth rate forecast for this year downward to 3 per cent, which is the lowest growth forecast since 2009. Combining with the uncertainty of Brexit in the United Kingdom and tense geopolitical situation in the Middle East, there is downward pressure on the global and Hong Kong economic growth trends. Our economy only expanded modestly by 0.5 per cent in the first half of this year, marking the weakest economic performance since the recession in 2009. The advance estimates on the GDP for Quarter 3 will be announced later this afternoon, and frankly there is no room for optimism. If Q3 continues to reflect a negative growth from Q2, Hong Kong will unfortunately enter a recession technically.

While external uncertainties have brought up immense pressure, I would say that the local situation is much more worrying. Hong Kong has proven time and again that we can withstand external economic shocks, be it the Asian financial crisis in the late 1990s or the financial tsunami 10 years ago, but then what is happening in Hong Kong now is unprecedented. From being one of the safest cities in the world, there have been extensive conflicts and violence in various districts in Hong Kong over the past four months. A handful of rioters initiated attacks and sabotages in an organised and planned manner. They doxxed and beat people holding different views, vandalised public facilities, set fires in MTR stations and shops, and hurled petrol bombs at police officers, spreading chaos and fear in Hong Kong and seriously disrupting people's daily lives.

Inevitably, the economy will be hard hit. Surveys showed that local business sentiment has turned extremely pessimistic in recent months. The impact is most obvious in some of the services industry. Visitor arrivals

started to fall since the middle of July, followed by a widening drop of 30 to 40 per cent in August and September. In the first half of October, the drop was about 50 per cent. Retail sales volume showed an enlarged fall of 25 per cent in August compared to last year. The catering industry is also hard hit and hundreds of restaurants may have to be closed if the situation persists. All these figures are very alarming, especially if you consider the fact that these relevant industries now employ some 600 000 people.

Due to the economic challenges ahead, the Financial Secretary has announced in three rounds in the past three months, that is August, September, October, a wide range of initiatives to support enterprises, safeguard jobs, stabilise the economy and strengthen livelihood. Many of the measures target at small and medium enterprises which account for over 98 per cent of local enterprises and around 45 per cent of total employment in Hong Kong.

To assist our SMEs to cope with the operating pressure in the current economic environment, we have announced to waive 27 groups of government fees and charges for 12 months to benefit a wide range of sectors from logistics, retail, catering, tourism, construction, to agriculture and fisheries. Rent reduction by 50 per cent for six months will be provided to tenants of various government business premises. We have announced new initiatives to help our SMEs cope with liquidity problem by offering loan guarantee under more relaxed terms. We have also called on banks to support SME borrowers without undermining their credit policies and risk management principles. In addition, the Hong Kong Monetary Authority has adjusted its requirements on banks, which is expected to make available an additional funding of around \$200-\$300 billion for lending. We have also called upon real estate developers to provide rental concessions to tenants under such dire situation.

Targeting at the hard-hit sectors, we shall provide a six-month fuel subsidy to 61 000 taxi and mini bus drivers, 180 public transport operators and 130 000 drivers of registered commercial vehicles, and a one-off survey fee subsidy for 6 300 local commercial marine vessels. On the tourism front, together with the Tourism Board and the Travel Industry Council, a new measure will be launched in November to provide travel agencies with incentive payments based on the number of visitors or travellers they serve in order to support their operation.

The supporting measures mentioned cost a total of about \$21 billion. Together with the one-off relief measures announced in the 2019-20 Budget- many of which have yet to be implemented because they are waiting for Legislative Council's approval-which cost \$43 billion, all the measures with a total sum of around \$64 billion are expected to provide a 2 per cent impetus to our economy.

Although the launch of the various rounds of supporting measures may cause fiscal deficit, we consider that we need to spend the money, and we do have the ability to spend. Our economic fundamentals are robust, as evidenced by a sustained current account surplus, strong fiscal reserves, abundant

foreign exchange reserves, and a huge net international investment position. The Government will not hesitate to utilise our financial reserves to implement timely and suitable countercyclical measures, so as to stimulate the economy and relieve people's hardship. Now that we have so many business leaders in the audience, I will ask you to contact and liaise with my colleagues, so that we can proactively engage business chambers to listen to your concerns and suggestions for explicit and tangible measures that we can introduce further.

In addition to policy initiatives and support measures, I have emphasised in the 2019 Policy Address the importance of a sustained economic growth. We will continue to play the role of "facilitator" and "promoter", making efforts to increase land supply, nurture talent, promote external affairs, improve the business environment and implement tax concession measures with a view to enhancing the competitiveness of Hong Kong. For example, to attract companies to develop ship leasing business in Hong Kong, we will implement the measure announced in last year's Policy Address by introducing a bill into LegCo next year to provide tax concessions for qualified ship lessors and qualified ship leasing managers. On top of that, I announced in this year's Policy Address Supplement that we plan to introduce tax concessionary measures to encourage more commercial principals of the maritime industry, such as ship managers, ship brokers and ship agents, to set up presence in Hong Kong. I appeal to industry leaders to come up with similarly effective proposals to help Hong Kong excel.

We will also continue our efforts in attracting foreign investment. Indeed, we are very encouraged by the result that over 9 000 Mainland or overseas companies have presence in Hong Kong as reflected in our latest survey as at June this year. Among them, over 1 500 are regional headquarters, representing a 9.1 per cent increase over 2017. There is also a very encouraging growth of over 40 per cent in the number of start-ups in Hong Kong during the two-year period between 2017 and 2019, bringing the total number to over 3 000.

It is essential that we continue to expand overseas and Mainland markets, and we have done a lot in the past two years. We doubled the number of free trade agreements signed with other economies, and established our 13th overseas economic and trade office in Bangkok, Thailand. We are working hard with a view to opening our 14th Economic and Trade Office in Dubai, and we hope to bring you some good news on that very soon. We will organise delegations and invite Mainland and Hong Kong enterprises to conduct joint promotional activities in the Belt and Road economies. As highlighted in my 2019 Policy Address, we will seek policy support of the relevant Central Government authorities for facilitating Hong Kong enterprises to set up businesses in the Mainland's overseas Economic and Trade Co-operation Zones in some of those Belt and Road countries. For the Mainland, we are seeking the policy support of the relevant Central authorities for, among others, tax concessions for Hong Kong enterprises and streamlining of the relevant approval process, with a view to enhancing their competitiveness to tap this vast consumption market. For the SMEs who need a bit of help in going out, the Dedicated Fund on Branding, Upgrading and Domestic Sales, that is BUD

Fund, and the SME Export Marketing Fund have already been enhanced to provide support.

I'm sure all of you would support the initiatives that we have put in place. In fact, I note that the chambers have all issued positive statements in response to my Policy Address, for which I'm extremely grateful. However, I also note one point in common in your statements, which was repeated by Dennis in his opening remarks. You all want to see the violence in society to stop. Indeed, during our recent communication with the business sector including overseas enterprises, many of the business people said they did believe that the unique position and advantages of Hong Kong offer numerous investment and development opportunities. However, they were worried about the violent acts and damage to infrastructures, which led them to defer their investment plans.

On this, I would like to emphasise the Government's determination to stop violence, and our commitment in ensuring the comprehensive and effective implementation of the "One Country, Two Systems" principle in Hong Kong. Despite the difficult external and domestic environment, Hong Kong retains its core strengths as an international financial centre with an unrivalled geographical location, the rule of law, an independent judiciary, the free flow of information and a wide pool of professional talents. Hong Kong's institutional strengths and core competitiveness are still intact and widely recognised by many international agencies. Our financial system continues to run smoothly. Just last month, the Global Financial Centres Index once again ranked Hong Kong among the world's top three financial centres, behind only New York and London. The Swiss-based World Competitiveness Yearbook recently named Hong Kong the world's second-most competitive economy. And, earlier this month, the World Economic Forum's Global Competitiveness Report ranked Hong Kong third, up from last year's seventh place.

It is true that Hong Kong is going through a testing time, and I appeal to all of you to work together with us, to stand up against violence, so that social order can be restored. Once that is achieved, the Government will collaborate with relevant organisations, chambers of commerce and professional bodies to devote more efforts and more resources to carry out promotional work and other measures to rebuild international confidence in Hong Kong.

At the same time, I and my team are looking to address the deep-seated conflicts in society as revealed by the social unrest. We will continue to talk to people, and through continuing dialogue, I believe we will not only find a peaceful way forward, but also make Hong Kong even stronger than before.

Thank you once again for hosting this joint business luncheon for me and my colleagues. Let's hope Hong Kong will soon be able to emerge from the storm and embrace the rainbow. Thank you very much.