Speech by CS at CUHK EMBA Annual Conference (English only)

Following is the speech by the Chief Secretary for Administration, Mr Matthew Cheung Kin-chung, at the CUHK EMBA Annual Conference today (October 13):

Andrew (Programme Co-Director of EMBA of the Chinese University of Hong Kong, Professor Andrew Chan), Gregory (Chairman of the EMBA Annual Conference Organising Committee, Mr Gregory Yuen), Professor Chan (Pro-Vice-Chancellor of the Chinese University of Hong Kong, Professor Chan Wai-yee), ladies and gentlemen,

Good afternoon. I am most honoured to join you all at the CUHK EMBA Annual Conference today.

The label of "Made in Hong Kong" represents a shared vision of the past, present and future generations of Hong Kong. Many of us may still remember the days in the 60s and 70s when we found solace in stumbling upon a toy or a shirt labelled "Made in Hong Kong" as we travelled or studied abroad.

We all know how the story unfolded afterwards. Exactly forty years ago, the economic reform of Mainland China took off. As Hong Kong manufacturers gradually moved north, Hong Kong began to transform into a service-oriented economy. During the course of development, we rode out the storm of the 1998 Asian financial crisis and survived the 2008 financial crisis. Nine years on, Hong Kong's GDP grew 3.8 per cent in 2017, much stronger than the average of 2.7 per cent among developed economies. Retail sales rebounded from the slump several years ago and grew 2.2 per cent in 2017. Trade volume grew 8.4 per cent the same year. In fact, our merchandise trade volume is three times the size of our GDP – a rarity in the world. Our unemployment rate hit a 20-year low at 2.8 per cent or full employment this year.

Today, the service sector accounts for 92.2 per cent of our GDP, supplying 88.2 per cent of all jobs in Hong Kong across tourism, financial services, logistics, wholesale and retail, and business services. Meanwhile, the manufacturing sector accounts for less than 2 per cent of Hong Kong's GDP.

Some overseas economists wonder how Hong Kong's economy could survive over the years with such a small manufacturing sector while most developed economies still maintain a sizeable mix of manufacturing in their economy. On average, manufacturing constitutes 14 per cent of GDP in OECD (Organisation for Economic Co-operation and Development) markets, ranging from 21 per cent GDP in Germany to 11 per cent in the US. Even for small economies like Singapore, they still retain a manufacturing sector representing 18 per cent of its GDP.

Certainly, the vast opportunities offered by the enormous market in

Mainland China are a big factor that sustains the thriving economy of Hong Kong, but the tremendous efforts that Hong Kong people have made to diversify our economy and bolster our competitiveness on the experience gained in the past also play an indispensable role.

Innovation and Technology

The current-term Hong Kong Special Administrative Region (HKSAR) Government is determined to strive for innovation and develop a high value-added and diversified economy. Innovation and technology (I&T) is crucial to promoting economic development, raising the competitiveness of the city and the quality of living of its people.

Over the past two years, we have invested over $60 billion for supporting I&T development, including allocating $20 billion for the first-phase development of the Hong Kong-Shenzhen Innovation and Technology Park located at the boundary with Shenzhen and in an area known as the Lok Ma Chau Loop, injecting $10 billion into the Innovation and Technology Fund and earmarking $10 billion to support the establishment of two research clusters – one on healthcare technologies and another on artificial intelligence and robotics technologies.

We also have a vibrant I&T ecosystem in Hong Kong. We are home to some 100 biotech companies, some 300 fintech businesses and over 2 200 start-ups. In 2017, we attracted about US$1,100 million venture capital. We have set a target to double gross domestic expenditure on R&D (research and development) to 1.5 per cent of GDP by 2022 or $45 billion a year. The 2018-19 Budget earmarked over $50 billion to expedite Hong Kong's I&T development. To encourage greater corporate investment in R&D, we have introduced a super tax deduction for research and development spending. The first $2 million eligible R&D expenditure will enjoy a 300 per cent tax deduction, and the remainder at 200 per cent.

While Hong Kong is a service-oriented economy, high-end and high value-added manufacturing has a promising prospect, following the development of I&T and promotion of research and development. Indeed, Hong Kong has all the qualities needed to promote high-end manufacturing. We have world-class I&T facilities, R&D capability, outstanding scientific research talent, financing platforms, geographical location, business environment, legal system and a well-developed regime to safeguard intellectual property rights.

More importantly, manufacturing has never left us. Home-grown industrialists may have moved their factories to Mainland China and other emerging markets but Hong Kong remains the home of their headquarters. Many of them have grown into global companies and built their own product brands as businesses are passed on to the second or third generation. They are also a key feeder of business to small and medium enterprises (SMEs) in Hong Kong accounting for 98 per cent of companies in the city.

To capitalise on our experience in manufacturing, we will collaborate with the industry to promote integration of innovative technologies with industrial production and rejuvenate the "Made in Hong Kong" label. To this end, the second Policy Address announced by the Chief Executive just three days ago (October 10) proposes to promote high-end manufacturing through expedition of re-industrialisation. We will establish a $2 billion re-industrialisation funding scheme to subsidise manufacturers on a matching basis to set up smart production lines in Hong Kong.

The Precision Manufacturing Centre established by the Hong Kong Science and Technology Parks Corporation (HKSTPC) in Tai Po Industrial Estate and the Advanced Manufacturing Centre to be completed in Tseung Kwan O Industrial Estate will provide the industries with facilities for smart production. This year's Policy Address further recommends allocation of an additional $2 billion for the HKSTPC to identify suitable land in industrial estates for building manufacturing facilities required by the dedicated advanced manufacturing sector.

We believe that high-end manufacturing will generate R&D needs, which is conducive to raising R&D investment by the industries, thus contributing to robust and sustainable development of the R&D work of local universities and research institutes. High-end manufacturing will also provide quality jobs for local I&T talent, particularly young people, for the long-term development of Hong Kong.

To nurture talent to support our I&T development, we have launched a $500 million Technology Talent Scheme in August this year to recruit talent from outside Hong Kong to carry out research and development activities and train their local staff to apply cutting-edge technology for adding value to their businesses. The "Postdoctoral Hub" founded under the Scheme provides funding support for enterprises to recruit postdoctoral talent for scientific research and product development. The Scheme will also fund local companies on a 2 to 1 matching basis to train their staff in high-end technologies, especially those related to Industry 4.0 through its Reindustrialisation and Technology Training Programme. Response to the schemes has been positive. So far, 124 applications under the "Postdoctoral Hub" have been approved and 54 applications from the matching grant have been granted.

In parallel, we launched the Talent List last month to draw in high quality talents from all over the world in respect of 11 specified professions, including Fintech professionals and Innovation and Technology experts under the Quality Migrant Admission Scheme to support Hong Kong's development as a "high value-added and diversified economy".

Creative Industries

To unleash the potential of our young people and promote emerging industries, the current-term Government has introduced an array of measures to support our creative industries. They are not merely a cluster of emerging professions mainly in the design, arts, cultural and communications sectors, but are also a powerhouse that will drive the economy, add value and revitalise the label of "Made in Hong Kong" internationally. From 2005 to 2015, the creative industries grew at an average annual rate of 5.4 per cent. It is noteworthy that, the design industry grew 15 per cent a year in the same period. In 2016, it contributed 4.5 per cent to our GDP and employed

212 800 persons.

To promote the development of design and other creative sectors, we have injected $1 billion into the CreateSmart Initiative, of which $300 million has been earmarked for the Hong Kong Design Centre (HKDC) mainly to fund mega activities. The Government, in collaboration with the Urban Renewal Authority and the HKDC, has secured space in a redevelopment project in the district for establishing a design and fashion project to combine design and industry, to bring Hong Kong's fashion design development to a new level, and to groom young designers. Construction works of the project will soon commence and are expected to be completed in 2023-24.

The film industry, a key sector among the eight creative industries in Hong Kong, does not only enrich our cultural life, but has also successfully built up a brand name for "Hong Kong Films".

Whilst the global film market has undergone major changes in recent years, and there is a significant decline in the number of local productions, Hong Kong filmmakers are doing well in other markets, and many talented and enthusiastic young people still choose to pursue their career in the film industry.

We believe that there is strong potential for our film industry to prosper. It is important for the Government to work closely with industry players to turn challenges into opportunities so that Hong Kong films can shine again. To this end, this year's Policy Address has just announced to make a one-off injection of $1 billion into the Film Development Fund to support initiatives for boosting the development of our film industry in the next few years. We will realise this vision through measures under the following four broad directions, including nurturing talent, enhancing local production, promoting the brand of "Hong Kong Films" to more markets on the Mainland and overseas and building local audience.

To strengthen further our support for Hong Kong-based businesses in tapping overseas markets, we have enhanced two funding schemes administered by the Trade and Industry Department, namely, the SME Export Marketing Fund and the "Dedicated Fund on Branding, Upgrading and Domestic Sales" or the BUD Fund. The SME Export Marketing Fund aims to encourage small and medium enterprises to expand their markets outside Hong Kong by providing financial assistance to them for participation in export promotion activities. To enhance support to SMEs in exploring new markets and new business opportunities, we have injected $1 billion into the Fund, raised the cumulative funding ceiling for enterprises and relaxed the limitation on the types of eligible marketing activities since August this year.

In parallel, we have injected another $1.5 billion into the BUD Fund which aims to provide funding support to individual Hong Kong enterprises in undertaking projects to develop brands and restructure their business operations and promote sales on the Mainland market and ASEAN (Association of Southeast Asian Nations) market. To help SMEs, including start-ups, grasp economic opportunities and boost their competitiveness, we have extended the geographical scope of the BUD Fund to include the Association of Southeast

Asian Nations markets by launching the "ASEAN Programme" and increase the cumulative funding ceiling per enterprise for projects involving the Mainland market.

Belt and Road and Greater Bay Area

There is much more to share on the work that the HKSAR Government has undertaken to maintain our competitiveness and boost Hong Kong's brand. The key policy initiatives that I would like to use the remaining time to cover are the enormous opportunities for Hong Kong to seize in the development of the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area). These two national development strategies will have a direct bearing on the future of Hong Kong's economy and will open up opportunities for us to achieve new heights.

Our city's growth potential is intertwined with that of our Motherland – the world's second largest economy. Hong Kong's strengths as a well-connected global business and financial hub will play an important part in these far-reaching economic initiatives.

The Greater Bay Area aims to unleash the economic potential of the cluster of 11 cities in the Pearl River Delta region, including Hong Kong, Macao and nine cities in Guangdong Province. Hong Kong has a key role to play in the Greater Bay Area given our strong global connectivity, well-established institutional strengths, and competitive edges in trade, finance, innovation, and legal services. We provide an important platform for Mainland enterprises to go global and overseas investments to penetrate the huge and lucrative China market.

To put the scale of this development into perspective, the Greater Bay Area covers a population of nearly 70 million, similar to that of the UK; generates GDP of around UK$1.2 trillion, over half that of the UK or the size of Korea and Australia and spans an area of 56 000 square kilometres. The Greater Bay Area is thus a huge market in its own right.

Brand new mega transport infrastructure, including the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge will significantly reduce travel time, cut costs, promote connectivity and boost the flow of capital, talents, goods, business and information in the region.

Just last month, the Guangzhou-Shenzhen-Hong Kong Express rail came on stream. The "Vibrant Express", as the sophisticated trains are most fittingly named, links vibrant Hong Kong to the mainland's state-of-the-art express rail network covering more than 25 000 kilometres, including services to Guangzhou in 48 minutes and Beijing in less than nine hours. Meanwhile, the impressive Hong Kong-Zhuhai-Macao Bridge is expected to spring to life soon. It is the world's longest bridge-tunnel sea crossing, spanning 42 kilometres across the Pearl River Estuary linking Hong Kong with Zhuhai and Macao.

Meanwhile, construction work of the third runway system is underway at Hong Kong International Airport at Chek Lap Kok. Our airport is the world's largest air cargo hub (handling 4.94 million tonnes of cargoes in 2017) and one of the busiest for passengers (handling 72.9 million in 2017). Once the Three-Runway System takes off in 2024, our airport will be able to handle altogether nine million tonnes of air cargo and over 100 million passengers annually.

These mega infrastructure projects will further consolidate Hong Kong's pivotal role in the Greater Bay Area for many years to come. In fact, the Greater Bay Area is also a key link to the far-reaching Belt and Road Initiative, serving as a converging point for flows of trade, investment and talent between Mainland China, Southeast Asia and all the way to Europe.

The Belt and Road Initiative is a mammoth national strategy, promoting land, sea, energy, financial and cultural links among more than 60 countries in Asia, Africa and Europe. These countries account for about 31 per cent of global GDP and 33 per cent of global merchandise trade.

Since its inception in 2013, the Belt and Road Initiative has made headway under the watch of the world. More than 100 countries and international organisations have joined in. By the first half of 2018, trade volume between Mainland China and Belt and Road countries exceeded US$600 billion, while our country's outward financial investment amounted to over US$7 billion. Chinese firms have built more than 80 overseas economic and trade co-operation zones, with a total investment of more than US$25 billion, creating over 244 000 jobs.

Hong Kong is destined to play an important role in the development of the Belt and Road Initiative. As a highly open economy with extensive connections and international experience, Hong Kong is the freest market, allowing free flow of capital, goods, talent and information while keeping close ties with our Motherland.

In December last year, we signed the "Arrangement between the National Development and Reform Commission and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative".

The Arrangement allows us to give full play to our unique advantages under "one country, two systems" to contribute to our country and, at the same time, seize the opportunities brought by the Initiative to give new impetus for our economic growth. The relevant measures will help reinforce and elevate Hong Kong's position as international financial, transport and trade centres, promote partnership between Mainland and Hong Kong enterprises, spawn the demand for Hong Kong's professional services and present our home-grown talents with promising prospects, thus enhancing the upward mobility of our younger generations.

Hong Kong enterprises and professionals are already participating in quite a number of projects in regions along the Belt and Road. Notable examples include the metro system in Saudi Arabia, airports in Cambodia and Sri Lanka, power plants in Thailand and Vietnam as well as a waste management system in Bangladesh. This testifies to our professional and project management capabilities in delivering world-class professional services that are "Made in Hong Kong" across the globe.

Ladies and gentlemen, the Chief Executive, Mrs Carrie Lam, just announced the second Policy Address of the current-term Government, which set out 244 new initiatives and 470 on-going initiatives to propel Hong Kong forward. We will continue to perform the roles as "facilitator" and "promoter" to proactively foster Hong Kong's long-term economic and social development, provide more land for housing and future economic activities, reinforce Hong Kong's advantages by stepping up investment in education, as well as innovation and technology, scale up our established industries, improve people's livelihood and promote quality living. Our aim is for the Government to join hands with the whole community to strive ahead and build a future full of hope and opportunities.

Before I conclude, let me make a declaration- I am a bona fide "Made in Hong Kong" product. I am a third-generation Hong Kong Chinese born, brought up, reared and educated in Hong Kong. I joined the Hong Kong Government right after graduating from the University of Hong Kong in 1972, and have served people of Hong Kong continuously for over 46 years so far with one heart, one mind and one purpose. Indeed, I am not only truly "Made in Hong Kong" but also "Made by Hong Kong", "Made of Hong Kong" and "Made for Hong Kong".

On this philosophical and personal note, I wish the Conference every success and all of you a very rewarding discussion. Thank you very much.