

Speech by CS at Hong Kong Association Luncheon in London (English only)

Following is the speech by the Chief Secretary for Administration, Mr Matthew Cheung Kin-chung, at the Hong Kong Association luncheon held in London today (September 28, London time):

Sir Douglas (Chairman, Hong Kong Association, Sir Douglas Flint), ladies and gentlemen,

Good afternoon. I am most honoured to be invited to join the Hong Kong Association Luncheon in my capacity as the Chief Secretary for Administration for the first time and to address this high-powered audience who are part of the strong Hong Kong-UK ties.

We are now more than halfway through 2018 and Hong Kong just celebrated its 20th anniversary of its return to the Motherland last year. With the innovative and visionary "One Country, Two Systems" principle, Hong Kong has remained and will continue to be a vibrant, prosperous and safe international financial and business hub. I still recalled distinctly that in the run-up to 1997, many sceptics asserted that Hong Kong was doomed to fail, turning into just another ordinary city on Mainland China. But they have all been proven wrong!

Of course with hindsight, we all know that these allegations are nothing close to the truth. Hong Kong has kept its distinct features and strengths. We have weathered the financial crises of 1997 and 2007 and has risen as Asia's World City. We have not only survived but thrived and prospered. And the future of the Hong Kong Special Administrative Region (HKSAR) remains promising and bright as ever.

As President Xi Jinping has rightly pointed out, the destiny of Hong Kong has always been intricately bound with that of the Motherland. By consolidating our traditional advantages and exploring new areas of economic growth, coupled with the unprecedented Belt and Road initiative and the Guangdong-Hong Kong-Macao Greater Bay Area development, Hong Kong will no doubt remain a star player in Asia and the global avenue in the years to come.

International financial and business metropolis

Our status as a leading international financial centre has long been established. We have the largest number of international companies setting up their regional headquarters and offices in Hong Kong where they call home away from home. Our achievements are well recognised. We came third worldwide and topped the league in Asia in the latest Global Financial Centres Index published in March this year.

Furthermore, Hong Kong's strength as the most business friendly economy has long been praised by world leading public policy research institutes. The 2018 Index of Economic Freedom Report issued by the Washington-based Heritage Foundation ranked Hong Kong the world's freest economy for the 24th consecutive years. When it comes to economic freedom, Canada-based Fraser Institute has ranked us first since 1996. We earned top scores in Fiscal Health, Business Freedom, Trade Freedom and Financial Freedom. The Foundation also recognised the high quality of Hong Kong's legal framework, low competition, high degree of government transparency, efficient regulatory framework and openness to global commerce.

Nevertheless, we know better than anyone else that there is simply no room for Hong Kong to be complacent. To maintain our economic competitiveness, Hong Kong Special Administrative Region Government has put forward an aggressive tax measure to lower the profits tax rate for the first \$2 million from the standard rate of 15 per cent to 8.25 per cent, in order to provide further tax relief for small- and medium-sized enterprises.

Separately, we are also exploring ways to facilitate the listing of emerging- and innovative-sector companies here, including permitting the listing of pre-revenue biotech issuers and companies from emerging and innovative sectors with weighted voting rights. We also propose to establish a new concessionary secondary listing regime for Mainland China and international companies that wish to seek a secondary listing in Hong Kong.

Leveraging our well-established financial industry, Fintech will no doubt be the new growth point of the banking sector. Thanks to the concerted effort of the HKSAR Government, financial regulators, emerging and innovative sectors as well as industry players, the local Fintech ecology has become increasingly vibrant in recent years. Cyberport now houses over 300 Fintech companies and world-renowned innovation laboratories and accelerator programmes such as "Accenture Fintech Innovation Lab" have chosen to establish their presence in Hong Kong.

The current-term HKSAR Government is determined to take up the role as a "facilitator" and a "promoter" in addition to our existing responsibilities as a "service provider" and a "regulator", the Hong Kong Monetary Authority (HKMA) has launched the Faster Payment System (FPS) since September 17, providing a round-the-clock real-time payment platform allowing banks and stored value facilities service providers to offer their customers faster payment and transfer services. With the booming of virtual banks in other countries, the HKMA is also reviewing and amending the relevant guidelines with a view to issuing licences within this year.

To nurture more Fintech start-ups and talent, a dedicated provision of HK\$500 million is provided for the development of the financial services industry in the coming five years, providing necessary support for Fintech, bond market development, green finance, manpower training and other aspects of financial services. No less important, we will continue to leverage the UK-Hong Kong Fintech Bridge Agreement signed in September 2017, covering referrals of innovative firms, participation in joint innovation projects,

and information and expertise sharing. Riding on the back of the success of the Fintech Awards, we sincerely welcome UK Fintech companies to join our annual flagship Hong Kong Fintech Week event next month.

Transport and logistics hub

Business and finance aside, we will not lose sight of our transport and logistics industry which constitutes some 22 per cent of our gross domestic product and about 20 per cent of our employment. Strategically located at the heart of Asia, Hong Kong connects to Mainland China and the world by a world-class international airport, a container terminal renowned for its efficiency and extensive land crossings. Last year, the airport handled over 70 million passengers and 4.5 million tonnes of cargo. It did not come as a surprise that our airport came first internationally in air cargo throughput for eight consecutive years. Our container port is one of the world's busiest with an average of 11 hours to load and unload a full container vessel.

We are well connected with the region, reaching half of the world's population within five hours' flight time. However, as our airport's existing system has reached full capacity, we are expanding the airport by building a third runway. When the Three Runway System is in operation by 2024, we will be able to handle 102 air traffic movements per hour. The annual passenger volume is expected to rise to over 100 million while for cargo to nine million tonnes.

To strengthen Hong Kong's position as a diversified international maritime centre, the Hong Kong Maritime and Port Board, in consultation with the industry, is pressing ahead with a comprehensive strategy to bolster the development of the industry and high value-added maritime services, and encourage overseas maritime enterprises to establish a presence in Hong Kong. A spectrum of port enhancement measures is underway to enhance Hong Kong's capacity as an international maritime centre. These include the provision of additional terminal yard space and barge berths by stages to increase the container handling capacity of the Kwai Tsing Container Terminals and the better use of back-up land of the terminals.

Despite the promising development in air and maritime transport, I must add that year 2018 is the most "eventful" year for land transport. First, the 26-kilometre Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link just came on stream five days ago on September 23. It directly links Hong Kong with the 25 000-kilometre high-speed track of our country's national rail network.

Next, we will be welcoming the Hong Kong-Zhuhai-Macao Bridge, the world's longest combined sub-sea tunnel and bridge. This mega project of the century will provide the main artery to the western Pearl River Delta region and enhance Hong Kong's connectivity and economic cooperation with the Guangdong-Hong Kong-Macao Greater Bay Area – a key point for the development of the Belt and Road Initiative.

Hong Kong shares the Guangdong border with Shenzhen and has already

opened six land boundary control points with this bustling city. To strengthen further our linkage with Shenzhen and Guangdong East to facilitate future development of these areas and extend the economic hinterland of Hong Kong, a seventh boundary control point, namely the Liantang/Heung Yuen Wai Boundary control point, will soon come into operation as a vital eastern corridor for over 600 000 daily commuters between Hong Kong and Shenzhen.

All these major infrastructure developments will continue to underscore our status as the region's business and logistical hub, boosting opportunities for Hong Kong and for those who partner with Hong Kong.

Tourism and cultural centre

On the softer side, we are determined to further develop Hong Kong into a world-class premier travel destination and the events capital of Asia. Our latest arrival figures are encouraging. Hong Kong received about 5 million visitors in March this year, or a nine per cent surge over the same period a year ago. Most of them (2.3 million) stayed overnight. While remaining optimistic about the outlook of the sector, we see genuine need to attract more high-yield overnight visitors to ensure the balanced, healthy and sustainable development of our tourism industry.

And we mean real business here. We have spared no effort in enhancing our tourism facilities and supporting the development of new attractions and events. We have just completed the revitalisation of the Dr Sun Yat-sen Historical Trail in April, adding 16 novel artworks designed by nine local artists under the theme of "Art Across Time". This Historical Trail, in tune with PMQ (i.e. the former Police Married Quarters in Hollywood Road) as well as the heritage site Tai Kwun, comprising the former Central Police Station, the Central Magistracy and Victoria Prison, re-opened in May this year after revitalisation has greatly enriched the historical narrative of Central and Western District.

Ladies and gentlemen, many of you are old friends of Hong Kong. Please allow me to refresh your fond memories of Hong Kong through the following [video](#) on our much valued cultural precincts.

This video also underlines Hong Kong's status as an international cultural metropolis. Two years ago, the Chief Executive, Mrs Carrie Lam, updated you on the latest position of our major cultural investment, the West Kowloon Cultural District. Today, this much-anticipated major cultural development begins to take shape and is gradually becoming a prominent landmark on the waterfront of the Victoria Harbour. Major facilities including the Xiqu Centre, the M+ Museum, the Lyric Theatre Complex, the Freespace, the Art Park and the Hong Kong Palace Museum which will display valuable artefacts never exhibited before will be completed in the next few years.

Hardware aside, we are also keen to co-operate with partners worldwide to stage inspiring arts and cultural events. The British Museum staged the "Eternal Life – Exploring Ancient Egypt" exhibition as part of the

celebrations of our 20th Anniversary of the establishment of the Hong Kong Special Administrative Region last year. To create more opportunities for young artists, we will also provide funding of HK\$36 million in the coming six years for continuing the training scheme for arts administrators and encouraging young artistic talent to study outside Hong Kong and exchange experience with their counterparts elsewhere.

Innovation and technology node

While Hong Kong has always been on the top tier of different world ranking lists, the shift in emphasis to innovation, technology and internet-based business to drive economic growth has shaken up rankings of competitiveness worldwide. Hong Kong certainly has no plan to relinquish our global leadership.

And such vision is no lip service. Since the establishment of the Innovation and Technology Bureau, our efforts in pursuing a strategy of innovation-driven development and investing heavily in grooming IT-savvy talents are beginning to yield results. To add impetus to the innovation and technology development in Hong Kong, the Chief Executive announced in her inaugural Policy Address to double our Gross Domestic Expenditure on research and development as a percentage of the Gross Domestic Product to about HK\$45 billion a year, up to 1.5 per cent from the present 0.73 per cent before the end of the current-term of Government in June 2022.

To incentivise private companies to step up investment in technological research and development, we have provided super tax deduction for research and development (R&D) expenditure incurred by corporates. Put simply, the first HK\$2 million of eligible R&D expenditure will enjoy a 300 per cent tax deduction and 200 per cent for the remainder. In addition, we have allocated HK\$50 billion in this year's Budget for developing innovation in the areas of biotechnology, artificial intelligence, Fintech and building a smart city. Another HK\$10 billion has also been earmarked for funding world-renowned research institutes or technology enterprises to conduct biotechnology, artificial intelligence and robotic research as well as development projects in Hong Kong through partnerships with local institutions.

We have also earmarked HK\$3.5 billion to boost the quality and quantity of local technology talents, including a HK\$500 million Technology Talent Scheme launched last month. It includes the creation of a Postdoctoral Hub scheme designed to help recruit post-doctoral talent for our research institutions. The Scheme will also fund local companies on a matching basis to train their employees to adapt to high-end technology.

As for those talents which are in short supply in Hong Kong, we have launched the Technology Talent Admission Scheme to provide a fast-track arrangement for admission of overseas and Mainland research and development talent in areas such as biotechnology, artificial intelligence, cybersecurity, robotics, data analytics, financial technologies and material science. In fact, I have made use of this visit to meet UK-trained medical students and doctors and introduced to them the opportunities and

facilitation measures to return to Hong Kong to perform clinical work in public hospitals and clinics or to teach or conduct research at the two medical schools in Hong Kong.

Of course, to further sharpen our competitiveness in face of the rising tide of trade protectionism, we should move to a bigger regional picture to seek new impetus. And I am speaking against the backdrop of the mammoth opportunities presented by the Belt and Road initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area. They are the best examples of how we can benefit from "One Country, Two Systems": leveraging the vast opportunities and advantages provided by the country while maintaining our unique strengths and distinctive features and core values. Indeed, it is incumbent for us to make the most of the two national initiatives. Let me quote a few examples.

Infrastructure development is at the heart of the Belt and Road initiative. According to the Asian Development Bank, it is estimated that Asia will require an infrastructure investment of US\$1.7 trillion per year until 2030. Thanks to our unique dual advantages, Hong Kong has the world's largest offshore Renminbi pool and ranked first in Asia as the global financial centre and fund management hub. We also have the highest concentration of insurers in Asia and ranked second in Asia in terms of initial public offering funds raised. All these impressive attributes have made Hong Kong an ideal place to carry out project finance in both public and private markets with an array of financing avenues for big-ticket infrastructure projects along the Belt and Road corridors.

With the successful launch of the Shanghai-Hong Kong Stock Connect, the mutual recognition of funds, the Shenzhen-Hong Kong Stock Connect and Bond Connect schemes in the last few years, we will continue to explore the possibility of including a wider range of products in the mutual access mechanism such as exchange-traded fund and extending Bond Connect to cover south-bound trading, with a view to creating more investment opportunities and better access to the Mainland capital markets for both local investors and those from the Belt and Road region and beyond.

Moving on to a new era of innovation and technology, we look for new development opportunities offered by the Guangdong-Hong Kong-Macao Greater Bay Area, a national plan covering Hong Kong, Macao and nine cities in Guangdong Province. Among other things, it will become Hong Kong's ticket onto the tech innovation train to join hands with Shenzhen and other cities to develop an international innovation and technology centre very much like the Silicon Valley around the Pacific.

Innovative start-ups based in Hong Kong can thus tap into the region's skilled technical talent pool, its rapid prototyping and advanced manufacturing capabilities, as well as its just-in-time fulfilment and logistics strengths. The 1.2 million square-metre Hong Kong-Shenzhen Innovation and Technology Park, sitting on the Loop of the Shenzhen River along the border of the two sides, is definitely a shining example. Four times the size of Hong Kong Science Park, it will be an unparalleled venture

to boost innovation and technology research and collaboration, attracting top-tier enterprises, research institutions and higher education institutes from both sides of the Shenzhen River as well as those across the globe. Some HK\$20 billion has been earmarked for the first phase of infrastructure development and initial operating costs.

More importantly, our innovation and technology development has been given a much-needed shot in the arm by President Xi. He has not only endorsed Hong Kong's quest to become an international innovation hub, but also directed state agencies to open up science and technology funding of the Central People's Government for application by higher education and research institutions in Hong Kong, including arrangements for cross-boundary remittance of approved project funding to Hong Kong in order to enhance Hong Kong's technological advancement.

Ladies and gentlemen, I hope that I have reinforced your confidence in Hong Kong that we will continue to thrive and shine in a fiercely competitive world. On this encouraging note, I wish our bonds will continue to grow from strength to strength. Before I end my speech today, let me show you a brand new [video](#) on the latest state of play on innovation and technology in Hong Kong.

Thank you.