

Speech by FS at business luncheon held by Hong Kong Economic and Trade Office in San Francisco (English only) (with photo/video)

Following is the speech by the Financial Secretary, Mr Paul Chan, at a business luncheon held by the Hong Kong Economic and Trade Office in San Francisco yesterday (November 15, San Francisco time):

Thank you Jacko (Director of the Hong Kong Economic and Trade Office in San Francisco, Ms Jacko Tsang).

Distinguished guests, friends of Hong Kong, ladies and gentlemen, thank you very much for joining us at this lunch, and for giving me this welcome opportunity to update you on the developments in Hong Kong, and to exchange views with you as to how we can serve you better, and at the same time, grow Hong Kong's economy.

I understand that some of you have recently been back to Hong Kong, and some of you haven't been to Hong Kong for over four years, and your last visit was probably before the pandemic. So let me first clarify one or two questions that you may have in mind.

In the past year, because of geopolitics and other reasons, there have been some questions about whether "one country, two systems" in Hong Kong is still continuing, and how is the rule of law working in Hong Kong.

On "one country, two systems", I wish to share with you this is a very important institutional strength for Hong Kong, and this will continue for the long term. Last year, President Xi came to Hong Kong, on the occasion of the 25th anniversary of Hong Kong's return to the motherland, and he made an important speech. He reiterated that "one country, two systems" is a good system, that it should be here for the long term. It is important not just for Hong Kong, but also for the country. "One country two system" is not an expedient measure because of 1997, but indeed, for a prosperous and internationally facing Hong Kong, which is also serving the country's best interest. This commitment to "one country, two systems" was subsequently written into the constitution of the Communist Party of China last October during their meeting in Beijing. It was further written into the Constitution of the country in March this year in Beijing during the "two sessions". It is indeed a very solemn commitment.

Then, what are the advantages of "one country, two systems"? In a nutshell, we are part of China, and we have easy access to the Mainland market. But at the same time, we are operating on different economic and legal systems that distinguish us from the rest of the country. That allows

us to continue to positively engage with international communities. Say for example, in Hong Kong, we are a free port – free flow of goods, capital, talent, as well as data.

Secondly, we practise common law, and our Judiciary exercises its powers independently. If I may give you one or two examples: in Hong Kong, the Court of Final Appeal, our highest court, has 11 non-permanent judges. These judges are serving judges or retired judges from the UK, Australia and Canada. In every sitting of our Court of Final Appeal, there are five judges, three from local and two non-permanent judges. On the other hand, in the lower courts, including the Court of Appeal, there are still a substantial number of foreign nationals serving as judges. In fact, it is very uncommon in any jurisdiction to allow foreign nationals to serve on the court at this high level. The second example, if I may cite, is in a recent decision with regard to same sex relationships. In that case, the Court of Final Appeal ruled partly against the Government, and we would be bound to make reference to that judgement to modify certain policies with regard to same sex relationships.

When you have the opportunity to visit Hong Kong, when you talk with your friends, you will realise we in Hong Kong uphold the rule of law and independent judiciary. It is dear to us. It is the very foundation of our society and a clear competitive advantage of Hong Kong in Asia.

Then if I may move on to talk briefly about our economic situation, economic prospects and development directions. This year, our GDP (Gross Domestic Product) is estimated to grow at 3.2 per cent. We have come out from the pandemic. We went through four difficult years, really, from the second half of 2019, first the social violence, and then three years of the pandemic. So Hong Kong had been kind of cut off from the rest of the world. But now we have fully been reopened, reconnecting the world and the Mainland. In August, tourist arrivals reached about 4 million, and in September, over 3 million because there were seasonal differences. The numbers were about 65 to 70 per cent of the pre-COVID level. International flight resumption at the moment is about 70 per cent, and will reach 80 per cent towards the end of this year, and full recovery by next year. We welcome visitors, business and leisure travellers to come to Hong Kong.

Inflation in Hong Kong is low, about 2 per cent because we are basically a service economy. The impact of energy costs escalation on our inflation is comparatively modest. A lot of our daily necessities and food stuff are from the Mainland, and they stay at a comparatively stable price.

Unemployment rate is at 2.8 per cent, which is very low. In fact, we have been rolling out schemes to recruit more foreign labourers and workers, and are also rolling out schemes to attract talent to Hong Kong.

For the asset market, property price dropped by about 17 per cent when compared to the historic height in September 2021. But remember that our property price was extremely high, so it was still high even after down by 17 per cent. It doesn't pose any challenge to our banking system or the

confidence of people in our economy, because there has been an orderly adjustment with low transaction level. Given the high interest rate and the unfavourable economic situation in the past few years and the geo-political tensions, that adjustment is natural. Outlook, I would say, is stable.

Another dimension in the asset market is the stock market, which has been kind of a roller coaster. This year, from the end of last year, down by about 14 per cent, in line with the drop in the Mainland stock market. But it has been functioning in an orderly manner, in and out, no problem, no matter it is about the fund flow, or investor flow. So the outlook is positive. We have formed a task force to look at our stock market's liquidity, and the task force has come up with several recommendations. We are in the process of implementing them, including enhancing our listing regime, our listing mechanism, making it easier for Mainland capital to come to Hong Kong, attracting more international issuers, quality companies from the Middle East, Southeast Asia, and Europe to come to Hong Kong for listing. So a number of measures are being implemented. The economic situation on the Mainland, after the adjustment, turned to be more positive. I think both the property market and the stock market will be a lot more positive. But at the moment, it is stable and orderly.

How about the economic direction, development direction? We have two main engines of growth – one is financial services. Hong Kong is an IFC (international financial centre) – I think most of you are very familiar, so I am not going to elaborate further. The second engine is innovation and technology. We believe Hong Kong's economic success in the past has rest on our ability to continue to transform ourselves. We have been a very successful IFC for quite some time. The per capita GDP is close to US\$50,000, comparatively a wealthy society. But at the same time, the economic structure needs to be diversified. We want to diversify it, for a number of reasons. First, if our economic structure could be more diversified, we could better weather different economic cycles. Hong Kong, being a small open economy, is susceptible to external changes, so a more diversified and balanced industry structure is important.

Second, to offer more quality job opportunities for our people. For people not interested in becoming a banker or VC (venture capital) or private equity investor, or becoming an accountant or a lawyer, they can choose to have an excellent career in the technology sector.

Over the past few years, we have invested over HK\$200 billion and an eco-system is now formed. In the community, the buy-in for Hong Kong in developing innovation and technology is very strong. We now focus on four areas: one is artificial intelligence and data analytics; life and health sciences; fintech; and finally, advanced manufacturing and new energy and new materials.

We rolled out an innovation and technology blueprint in December last year. One of the objectives, one of the KPIs (key performance indicators) we have given ourselves is that by the year 2032, we want to have about 5 per cent of our GDP from the manufacturing sector. Hong Kong, being a small

place, obviously will go for advanced manufacturing, which will not occupy a lot of land resources. Here, let me share more about fintech.

At the moment, we have about 1 000 fintech companies, which has been growing very fast. In 2017, it was only about 180. We have eight virtual banks, four virtual insurers, two virtual assets trading platforms. One of them is here – thank you for joining us. I give these figures to indicate the openness we have in adopting financial innovation. We know this is a major engine of growth, but at the same time, we have to pay due regard to the risks associated with it.

In the Web3.0 space, our policy position is like this: we issued a policy statement last October, setting out our vision and the development direction. We know that Web3.0 basically is blockchain technology. And this financial innovation is going to be there. We have to embrace it, but also at the same time be alert to the risks associated with it, in terms of investor protection, anti-money laundering, terrorist financing, and the possible impact on financial stability. So it is important to put in guardrails to ensure the risks that I have mentioned are being taken care of, and then allow it to develop in a sustainable and responsible way.

For the innovation and technology sector, apart from clustering those companies, we hope to provide funding to enable them to grow at different stages of development. We have a very vibrant VC and private equity (PE) sector – there are around 650 private equity firms and VC firms altogether, and the PE alone manages slightly over US\$210 billion. So quite a vibrant space.

Finally, I wish to invite you all to come to Hong Kong. As a tourist, as well as an entrepreneur to set up your businesses here and find partners here in Hong Kong. Work with us to explore the opportunities not just in Hong Kong, but also the Greater Bay Area, of which Hong Kong is a part. In the Greater Bay Area – nine cities on the Mainland plus Hong Kong and Macao, with a total population of about 87 million – the per capita GDP is about US\$22,000. This area is young in terms of demographics, and the consumption power is strong. For those over 80 million people on the Mainland, they are very keen on having some of their asset allocation offshore, and Hong Kong is naturally the platform and the first stop. So there are tremendous opportunities.

But business aside, the value proposition of Hong Kong is still tremendous. Apart from starting a business within 24 hours, easy access to capital, excellent banking services, well, what's more, law and order – we are a safe city. For education, we are excellent. We have eight universities – five of them are within global top 100. We also have over 50 international schools. So if you settle in Hong Kong and want to put your children in international schools, you can put them in the Hong Kong International School which is basically on the American curriculum, or the English Schools Foundation, the French International, German, Swiss, or even Singapore, Japan, Korea – you choose it. We have a very vibrant education system, which is very important for attracting talent, I would say.

And what else, arts and culture. We have two major art infrastructures recently completed. One is the M+ museum, and the other is the Hong Kong Palace Museum. Apart from that, we host many events in this area, in March, usually Art Central, Art Basel, and the art trading transactions in Hong Kong are huge – I think we are Asia's number one, more than one-third of the market share there. One more: if you like good food, we have over 200 Michelin-recommended restaurants. And we don't tax on wine, and are in fact a wine trading hub. Apart from that, the tax system is very favourable for corporates: For the first \$2 million profit, profits tax is half of our standard rate, at 8.25 per cent; the excess will be taxed at 16.5 per cent, and it is not progressive. For individuals, the maximum tax across the board without deduction is 15 per cent. And we don't charge capital gains tax. We don't have GST (goods and services tax) or VAT (value-added tax). So it is basically a place where you can make money, where you can save and build your wealth. Perhaps I should stop here and would be delighted to take your questions. Thank you.

