Speech by FS at Hong Kong-Korea Business Roundtable Meeting cum Luncheon (English only)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Hong Kong-Korea Business Roundtable Meeting cum Luncheon today (June 20):

Bob (Hong Kong Chair of Hong Kong-Korea Business Roundtable (KRT) and Managing Director of Chungnam Corporation Limited, Mr Bob Chong), Mr Choi (Korea Chair of KRT and Chairman of Exicon Company Limited, Mr Choi Myung-Bae), Mr Koo (Chairman of Korea International Trade Association and Chairman of the Board of LS Corporation, Mr Christopher Koo), Margaret (Executive Director of the Hong Kong Trade Development Council (HKTDC), Ms Margaret Fong), distinguished guests, ladies and gentlemen,

Good afternoon to you all. It is a great pleasure to be here to join you for the luncheon of the Hong Kong-Korea Business Roundtable. A warm welcome to you all and I wish you a fruitful and rewarding trip here.

The Hong Kong-Korea Business Roundtable serves to foster closer economic cooperation between Hong Kong and Korea. And you are here to identify opportunities for us to explore together and to prosper together. This is important to our bilateral relationship.

Korea is now our 5th largest trading partner. The merchandise trade between us reached over US$47 billion in 2022. But there is still a lot of room to grow. Over the past five years, the average annual growth in merchandise trade between the two economies was about 2.5 per cent. Both sides could work harder.

I hope I could help you understand better about the situation in Hong Kong now, and that you will have the confidence with this city.

First, let me give you a very brief snapshot about the economic situation. The GDP growth this year is estimated to be in the range of 3.5 per cent to 5.5 per cent. In the first quarter, we recorded a 2.7 per cent growth. Though not very impressive at first sight, if you look consider that we have come out of COVID, having gone through successive contractions in GDP last year, then you will understand we have reached a turnaround. Our exports face a challenging situation, because of, first, geopolitical tensions. Second, the economic situation was weak in Europe, coupled with rising interest rates of the United States (US) in the first quarter, leading to a weaker demand from the US. Exports continued to drop in first quarter, by about 18 per cent.

But the business sentiment has come back and is very positive. We reopened our border at the beginning of this year. Tourists started to come.

In April and May, we had around 2.9 million visitors for each of the months. Our retail and catering sectors have rebounded. The number of visitors was about some 50 to 55 per cent of pre-COVID times. In terms of retail sales value as well as food and beverage receipts, Hong Kong had already recovered to about 90 per cent.

Looking into the second half of this year, we are optimistic. With Hong Kong having returned to full normalcy, business visitors and tourists will continue to come in. At the moment we are constrained by flight capacity, which stands only at about 55 per cent compared to the pre-COVID period. Where it improves, people would find it a lot easier to come since air flight tickets would be cheaper.

On the other hand, although our exports face difficulty, capital investment by private sector rebounded by about 6 per cent. Private consumption, at the moment, is our most important driver for short term economic recovery. For our GDP, the three key drivers include export, capital investment and private consumption. While exports are under challenge, improvements to investment will also take time. To sustain economic growth, we have to do more to encourage private consumption. We do this in a number of ways.

First, in my Budget this year, we decided to hand out consumption vouchers. Last year, the amount was HK$10,000 for each Hong Kong permanent resident. This year, the amount is HK$5,000. We want our residents to be willing to spend.

Second, we took steps to support the SMEs (small and medium-sized enterprises). SMEs are very important to us, as I think would be to your economy too. For us, SMEs accounted for about 99 per cent of the number of businesses here, and employ about 45 per cent of the working population. By protecting the SMEs, we would protect the jobs, and by protecting the jobs, we would protect social stability. What we have done is to put in place a scheme where SMEs could borrow with 100 per cent guarantee from the Government, and with lower interest rate, together with principal repayment moratorium. In other words, they could just pay the interest. Repayment of the principle could start only two to three years later. After all, we have been through very difficult three and half years. We need to instill confidence in people. We need to give them breathing space.

Apart from the GDP, inflation stood at around 1.9 per cent last year, and is forecast to be 1.9 per cent this year too. They are rather moderate. This is because we are basically a service-based economy, rather than an economy with a heavy manufacturing element. There is relatively less power consumption. Second, private residential rental has softened. It accounts for about 40 per cent of family expenditure. Third, increase in the price of imported goods from the Mainland is relatively mild. Indeed, inflation on the Mainland is not high.

And for unemployment, at the peak of COVID in February last year, unemployment rate hit 5.4 per cent. As we rolled out different schemes –

consumption vouchers and guarantee for SMEs, unemployment rate started to come down. Now, it's about 3 per cent. And now in Hong Kong, the challenge we face is not high unemployment, but indeed the lack of sufficient labourers. So we are on the way to import labourers.

Stock market in Hong Kong last year was tough, which followed the global situation. Our stock market went down by about 15.5 per cent with lower turnovers. This year, for the first three months, we saw a strong rebound. But in April and May, the market weakened. Overall, the stock market fell by about 7 to 8 per cent in the first five months of this year. The mood is mediocre. We hope that in the second half of the year, it will be better, with a better IPO (initial public offering) market too.

Property prices also dropped by 15 per cent last year. But the fall was orderly coming with a slow adjustment. The fall was orderly because the transaction volume was low. Last year, there were only 45 000 transactions. But in the year before, the figure was 74 000. So while property prices dropped, people did not panic and rush to sell their properties. Nor the developers. People held back. Even if they had the need to buy a residential flat, they still held back. This year, after we removed the COVID restrictions, property prices rebound by close to 6 per cent. Transaction volume also went up. So I would say, the property and stock markets are stable.

In the medium to long term, we have opportunities as well as challenges. But of course, opportunities far exceed challenges.

But let me outline the challenges first. First, geopolitical tensions between China and the US. Recently, the sentiment seems to be getting better. But the tension will still last. But Hong Kong, under the "one country, two systems" arrangement, may provide a channel for communication and co-operation. One recent example is that Hong Kong was where inspectors from the Public Company Accounting Oversight Board of the US managed to inspect audited materials of Mainland companies listed on the Stock Exchange in the US.

Second, the high interest rate environment would weaken the external demand.

Third, shortage of labour and land supply. In terms of labour, we are working aggressively to attract talent and import labourers. For talent, at the end of last year, we rolled out a scheme known as the Top Talent Pass Scheme. Graduates from the top 100 universities, regardless of their disciplines, can come to Hong Kong to work. We also upgraded other talent admission schemes. Since December last year when the new and upgraded Schemes were rolled out, and until May this year, we had received over 84 000 applications and approved over 49 000 of them. People are coming, and we want more. So if your young professionals and young people are interested in developing their career in Hong Kong, do encourage them to come.

For labourers, we have shortage in different sectors, including construction, logistics and transportation. This year, we aim to import 20 000 labourers, under a step-by-step approach.

So what are the opportunities? The opportunities are vested in the fundamental unique strengths of Hong Kong under the "one country, two systems" arrangement. We continue to practice common law. Our courts practise independent judicial power. Common law is very important, particularly for the international business sector. Hong Kong dollar continues to be pegged to the US dollar. We have no exchange control, and maintain free flow of goods, capital, people and data.

How is this going forward? In July last year, for the celebrations for the 25th anniversary of Hong Kong returning to the Motherland, President Xi Jinping came to Hong Kong and gave a very important speech. He made three important points.

First, "one country, two systems" is a good system. It is not for expediency. It is a good system for Hong Kong, as well as for the country. So it needs to be continued in the long term.

Second, the unique advantages of Hong Kong, which I have just outlined, are to be maintained in the long term.

Third, Hong Kong needs to change governing philosophy by being more proactive, with a capable government facilitating the highly efficient market to function, for the development of our economy.

In October last year, the Chief Executive delivered his Policy Address, and he set out two very important initiatives. One is to attract more strategic businesses to come to Hong Kong. Another one is to attract more talent to come to Hong Kong. So under my office, we set up an office called the Office for Attracting Strategic Businesses, or OASES. And over the past six months, we have already met over 150 enterprises from the Mainland and overseas. And in the Government, I set up a US$4 billion Co-investment Fund. Where a strategic company wanted to come to Hong Kong and hoped that the Government would co-invest in their projects or company, we can do it.

The 14th National Five-Year Plan of our country has given us eight important roles. We will serve as an international financial centre, trade centre, shipping centre, aviation hub, and an innovation and technology centre; as well as a centre for international legal and dispute resolution services in the Asia-Pacific region, and a regional intellectual property trading centre. We will also serve as East-meets-West centre for international cultural exchange.

Hong Kong is truly an international financial centre. The market capitalisation of our stock market is about US$4.5 trillion, which is about 13 times of our GDP. And we continue to innovate and expand the platform so to attract more international companies to list here. For example, if a Korean company lists on our stock exchange and fulfil certain requirements, you may become part of the stocks in the Southbound Connect – where investors on the Mainland could buy your shares. This is significant because when you list here, you are not only attracting international investors but also Mainland investors. And here, the pool of liquidity is huge, favourable to share prices and attractiveness of the stock.

Meanwhile, we are also working hard on furthering the development of green finance and innovations on virtual assets.

For innovation and technology (I&T), over the past few years, we have already invested about US$200 billion in terms of infrastructure, setting up research facilities, and attracting talent. While development will take time, OASES is tasked to attract more I&T companies to come, be they in healthcare, biotech, pharmaceutical, AI, robotics, green technology, new energy, etc – these are all our target areas – so that we could power faster I&T development. Our approach, which is different from the past, is to proactively reach out and talk to the companies. We can offer lower land premium, make co-investments, etc. If they need to bring talent, OASES will be the one-stop-shop.

Along the boundary between Shenzhen and Hong Kong, there is an area called the Loop of Shenzhen River. In this area, Hong Kong has designated an area with about one square kilometre, while Shenzhen, on their side, has designated three square kilometres, to form the Hong Kong-Shenzhen Innovation and Technology Park. We are doing this with full speed, hoping that it will be the I&T powerhouse of Hong Kong. And the Loop has been positioned by the Central Government as one of the four prime co-operation platforms in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA).

Hong Kong is part of the GBA, with close to 87 million people, and a GDP of around US$2 trillion, which is quite close to Korea. GDP per capita is about US$22,000. And the population is keen on access to international goods and products. So Hong Kong is the best platform for you to sell your product. If it could be sold in Hong Kong, it would be successful in the GBA and even the Mainland.

Finally, Hong Kong is not just about making money. This is a city that I'm sure you will enjoy. Say for example, if you like wine and dine, we have 200 Michelin-recommended restaurants. But if you want to explore street food, they are also excellent. We have country parks, wonderful beaches; and the cultural life here is rich, including the top-class Hong Kong Philharmonic and the Hong Kong Chinese Orchestra. The two new museums in the West Kowloon Cultural District, including M+ for contemporary arts, and the Hong Kong Palace Museum which shares great linkage with the Palace Museum in Beijing. And you can also visit our different arts, cultural and historical destinations, and they would all bring wonderful experience. Meanwhile, Hong Kong is a very safe city with excellent law and order.

Not to mention Hong Kong Kong's excellent education including more than 50 international schools here, including the Korean international schools.

I know I have been talking for too long, and so in short, Hong Kong has a lot to offer to you. I hope you can find the time to explore our city before returning home. Thank you.