Speech by FS at Joint Business Community Luncheon (English only) (with photos/video)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Joint Business Community Luncheon on the 2019-20 Budget today (March 19):

Aron (Chairman of the Hong Kong General Chamber of Commerce, Dr Aron Harilela), Eric (Deputy Chairman of the Federation of Hong Kong Industries, Professor Eric Yim), Dennis (President of the Chinese Manufacturers' Association of Hong Kong, Dr Dennis Ng), Connie (Vice Chairman of the Chinese General Chamber of Commerce, Ms Connie Wong), CGs (consuls general), distinguished guests, ladies and gentlemen,

Good afternoon.

Thank you for inviting me to this Joint Business Community Luncheon and the welcome opportunity for me to share with you a few thoughts about the Budget. Since the Budget has been published for almost three weeks, I do not intend to give you an elaborately prepared speech, but instead I will use a few PowerPoint slides to highlight my thinking.

In the Budget, firstly, I set out my observations about global political and economic landscape. A couple of points there, with the unsettling US-China relations topped the list. The way we see it is that apart from trade conflict, there are also deep-seated issues to be resolved. We would welcome an eventual agreement on the trade front, but at the same time we are conscious of the possibilities of the conflicts in some deep-seated structural issues which may bring the US-China relationships in the future into an up-and-down situation. This seems to be unavoidable and the impact would be on business sentiment, business environment as well as financial market sentiment. So from that perspective this is a risk to watch out.

The second point I want to highlight is the changing dynamics in international co-operation. Back in 2008, when the global financial crisis happened, different countries worked together in concerted effort to avoid the tremendous negative impact on global economy. And it was successful. Though at the same time, for some of the countries, their economic growth still could not go back to the pre-global financial crisis situation. But in recent years, it transpires quite clearly that in some of the developed countries, nativism and populism are taking place, and this will affect not just domestic politics but also their economic policies. So if there were another global economic crisis coming, the co-operation and timely response by different countries working together would become quite challenging, not to mention the policy room for manoeuvring has become a lot slimmer in the sense that interest rate has been so low and the effect of quantitative easing is still to be felt. So this is another risk to be observed.

But against this backdrop, the more positive sign is the economic growth in developing Asia, particularly India, ASEAN, on top of China. This will bring tremendous impact in terms of business models and the possible economic growth. Previously it seems to us that manufacturing is done in Asia and then goods are shipped to Europe and the US for consumption. But with a growing middle class and a growing strength in the developing Asia, in the future goods will be manufactured in Asia and consumed in Asia. And even more goods, particularly luxurious goods, high-quality goods, will be manufactured in developed countries and shipped to Asia for consumption. That brings tremendous opportunities for us from a trading standpoint.

Fourthly, we have the Greater Bay Area opportunities and Belt and Road Initiative, and finally the unstoppable innovation and technology wave across the world and its impact on Hong Kong.

In terms of our economic outlook, last year, suffice it to say, it is volatile and complicated. The economic growth last year was 3 per cent against a trend growth of 2.8, which was not too bad. But if you look at it on a quarter-to-quarter basis, it was coming down quite rapidly, from the first quarter of 4.6 per cent to the last quarter of only 1.3 per cent. For this year, 2019, we take a more prudent economic forecast: the growth is expected to be 2 to 3 per cent. And out in the market, some of the analysts put the GDP growth estimate of Hong Kong somewhere between 2 to 2.6 or 2.8 per cent. The economy is slowing down. In 2017, the growth rate was 3.8 per cent, 3 per cent in last year, and 2 to 3 per cent this year with inflation rate of 2.5 per cent. When we prepare our five-year mid-range forecast, we take 3 per cent as the GDP forecast growth rate beyond 2019-20 for four years.

That's why we choose this theme (Support enterprises, Safeguard jobs, Stabilise the economy, Strengthen livelihoods) for our budget.

And in this Budget, I purposely chose two industries to share with the public about the Government's vision and blueprint in terms of Hong Kong's economic development. We chose financial services as one because it is our pillar industry, our core strength, but yet we face tremendous competition. So how should we enhance ourselves to remain competitive and stay ahead of the game?

The second industry I chose was innovation and technology. For this term of the Government, we have committed slightly over $100 billion in this particular sector. And this is a sector not just affecting Hong Kong but, as I said before, affecting every country across the globe. How are we going to capitalise on these opportunities?

In terms of Hong Kong as international financial centre, these are the a few sectors which we have to work on. On the equities market, it used to be our competitive strength, but still the competition is keen. So last year we amended our listing rules to allow innovative companies with weighted voting rights structures to be listed. We allow biotechnology companies without revenue to be listed. Seven such companies got listed on the stock exchange last year. And in terms of funds raised through IPO (initial public offering), we ranked number one again last year.

In terms of the bond market, last year we launched a Pilot Bond Grant Scheme to encourage companies and organisations which have never used Hong Kong to issue bonds to come here to use our services and try out our professional services. We also launched a Green Bond Grant Scheme with some success. Last year, in terms of funds raised through green bonds, the total sum was about US$11 billion, which is triple of that in 2017. This is some of the efforts that we are pushing.

Going forward this year, we will spend a lot of energy on improving our insurance sector because under both the Belt and Road Initiative and the Greater Bay Area Development Plan, we are in a very privileged position to develop our insurance sector, not just life insurance but also general insurance, reinsurance, captive insurance, specialised insurance. These are the areas that, if we play the card right, bring us tremendous growth in the coming years.

In other areas, I will concentrate my team’s energy to develop the wealth and asset management sector. The Greater Bay Area is the most affluent region in China with 70 million people and a growing size of the middle class. According to the TDC (Hong Kong Trade Development Council), these people set aside about 27 per cent of their earnings for insurance and investments, and they do have the needs in terms of asset allocation, and to have some of the investments offshore. That presents tremendous opportunities to us. Also on that front, we are going to develop the private equity sector.

Our vision is to become the international financial centre of not just China, but Asia and the world. And this is to ride on the growing economic size of China and try to harness global opportunities.

Fintech and talent are the two major building blocks cut across all these sectors in order to support their growth. And in terms of the unique role of Hong Kong, we serve as a bridge, e.g. the Connect arrangements- Stock Connect, Bond Connect, and offshore risk management centre. If I may elaborate a little bit, MSCI has included A-shares in their index, and also FTSE. Nowadays, a lot of passive investment funds attract tremendous investment from investors and become a very influential force. And MSCI has just raised the weighting of A-shares.

And for the Stock Connect, over the past few years, the value of southbound investment has always significantly exceeded that of the northbound investments. But in the past few months, it’s very different. In the past two months, it is the northbound investment overtaking southbound investment. And going forward, with this increased weighting and if you believe in the economic future of the Mainland of China, this flow will grow as a result of the continuing interest of overseas investors in the China market. That will generate not just investment, but risk management services.

That’s why we were very excited when the CSRC (China Securities Regulatory Commission) allowed us, the Stock Exchange of Hong Kong, to launch A-share futures contract as a means of risk management for fund managers. We are pushing on a lot more products in this respect but they need to be worked out one by one with the Mainland authorities. Yet I would like to make the point that Hong Kong is uniquely positioned to take advantage of the Mainland’s development to sustain our economic growth.

There is also one final point I want to mention which is less touched upon before – it is the development of talents, not just managers, but top-notch talents in the financial services industry. The HKMA (Hong Kong Monetary Authority) will launch the Academy of Finance by the middle of this year and you will have more details then. Let me assure you that it would put us in the global map for Hong Kong will no longer only be an international financial centre, but a centre of excellence in terms of applied research in financial matters as well as pooling top-notch international talents to share experience and expertise.

In terms of wealth management, private equity as I mentioned before, is one of our key focus. It is because if we can attract private equity funds to set up and operate here, we would be able to bring in tremendous amounts of money to sustain our economic development, and to sustain the innovation and technology sector. And this is one way of channelling money to the real economy.

Over the past two years, we have amended our legislation to allow open-ended company fund structure. We are going to launch a consultation and legislative amendment on limited liability partnership. And we will come up with very competitive tax arrangements in order to attract these companies to base in Hong Kong, to operate here, channelling the funds to our industry, to the GBA area, and also provide quality employment opportunities for our people.

And in terms of innovation and technology, what is important are talent and ecosystem, and these two are interdependent. So, what we have been doing is to invest in innovation and technology infrastructures, including the Lok Ma Chau Loop area, the Science Park and the Cyberport. Among the $10 billion I gave to the Science Park last year, $3 billion is to build common infrastructure such as laboratories to be shared, and the remaining $7 billion is to enable the Science Park to attract tech companies and research institutions to come to Hong Kong, because if we are serious about developing innovation and technology, we need to deal with the talent issue. By having more top-notch institutions and universities and tech companies here, we would be able to draw talents from overseas. But at the same time, because in a short period of time we would not be able to produce that many talents, we ask them to employ some locals and work with our universities. In due course, that would encourage our own students taking such courses in the universities and taking innovation and technology as one of their career choices. This is very important not only in terms of diversifying our economy, but also offering our young people more quality employment opportunities.

Last year, I mentioned about setting aside $10 billion to develop two innovative clusters- one is on AI (artificial intelligence) and robotics technologies, and the other one is on healthcare technologies. We have been making pleasing progress – further details will be announced probably in the fourth quarter of this year. But at this stage, perhaps I should share with you, on healthcare technologies, a number of top-notch universities like Harvard University, Johns Hopkins University, Stanford University, Oxford University, Cambridge University, Imperial College London, have talked to us about having their research projects to be done here in co-operation with our universities.

On artificial intelligence, again, those names. And along with that, also MIT (Massachusetts Institute of Technology). So when these projects are realised one by one, and when we are able to attract tech companies to come here, then the ecosystem would become clear. Then our young people would see more hope and opportunities on that front.

And if I may move on to enhancing our competitiveness and productivity – there are two points not much discussed but are quite important. Number one, I have invited four experts to study and give me a recommendation as to how we can use part of our Future Fund to invest in areas that could enhance Hong Kong's competitive advantage and our productivity on a commercial basis. Currently the Exchange Fund managed by HKMA (Hong Kong Monetary Authority), say for example, is not able to invest in Hong Kong assets for obvious reasons because the Exchange Fund is for defending our currency. When do we need to use it? It is when we are being attacked. So imagine if the Exchange Fund invests in Hong Kong assets, when you were being attacked and need to utilise those funds, you'll need to realise those assets in Hong Kong. The price would be very depressed. And the fund size is so substantial that it could also trigger a downward pressure and sell down the market. So it is unwise, from Exchange Fund standpoint, to invest in Hong Kong assets. But ironically, for some of our top unicorns we groomed in our universities, in the Science Park, their investor is Temasek, not Hong Kong. We need to find a way to address this. This is just one example.

The other move in this Budget is to transfer the Tax Policy Unit from FSTB (the Financial Services and the Treasury Bureau) to directly under the FS (Financial Secretary)'s Office. It is because tax is attracting a lot of international attention in the past decade. So in terms of international compliance, in terms of international competition, this subject has to be taken care of at a high-level, cutting across different policy bureaux. So although FSTB has been doing a great job, we thought perhaps it should be the right moment for us to upgrade this office and when necessary inject more resources to make this a tool not just for working on international compliance, but for enhancing our competitiveness in face of competition.

This graph is to show you in a nutshell Government's income and expenditure. Simply put, next year, if without the writing back of part of the Housing Reserve, we would be in a slight deficit situation. Not a lot – $5 billion – so no cause for alarm. But at the same time, we should be conscious about the rate of growth in terms of expenditure.

Liveable city – apart from economic development, it is very important for us to make Hong Kong a liveable city. I set out here our initiatives in the past few years. In terms of medical and healthcare, it has been a sustained effort. In addition to this year's $16.1 billion expenditure, in 2016 and 2018, we altogether have set aside against our fiscal reserves $500 billion for hospital development projects, on completion of which will give us another 14 000 hospital beds. There will also be additional doctors, nursing professionals and allied health professionals.

Let me give you two tables. This table gives you an idea of Government's financial position. I purposely select these years for presentation. At the year of 2012-13, that is when the last term of Government took office, the operating expenditure at that time was about $302 billion and the total expenditure was about $377 billion. After five years, when the last term of Government stood down in 2017-18, total expenditure was $470 billion, representing an increase of around $100 billion. For this term of Government, if we take the 2018-19 revised estimate, the total expenditure grew by $67 billion, which is quite substantial. In 2019-20, another about $60 billion. This shows that over the past few years, in terms of Government expenditure, massive expenditure, the rate of growth has exceeded the rate of growth in our economy, and exceeded the rate of growth of our revenue, but so far it is still within our means. And the way I see it is some of the expenditure is for catching up our underspending in social investment in the past, say for example elderly care, medical and healthcare. And some of the money goes to investment in the future, say for example innovation and technology. But, at the same time, we should be conscious of such growth.

And this gives you the mid-range forecast, meaning that from 2019-20, five-year period to 2023-24, there will be by and large a break-even sort of situation over these five years. Our projected fiscal reserves still stands at some $1,200 billion, but because of the substantial increase in Government expenditure, it will become about 19 months of Government expenditure in 2023-24 – still a considerable sum but not as high as some would have thought.

So, ladies and gentlemen, with that let me stop here and I will be very happy to take your questions and also to hear your feedback and suggestions for the next Budget. Thank you.


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The Hong Kong Business Community Welcomes
The Financial Secretary
The Honourable Paul MP Chan
GBM, GBS, MH, JP


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