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聚信心 塑未来

Reforming for the sustainable development of Hong Kong



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As 2024 draws to a close, we have once again witnessed the resilience of Hong Kong, which empowers the city to overcome numerous challenges and evolve into the world-class metropolis it is today. Hong Kong has reclaimed its status as Asia's leading financial center, ranking third globally in the latest Global Financial Centres Index (GFCI). Moreover, it has also returned, for the first time since 2016, to the top 10 of the World Talent Ranking published by the International Institute for Management Development (IMD).

Against this backdrop of enhanced international recognition of Hong Kong's competitiveness, as well as restored social stability and improving business sentiment, Mr. John Lee, the Chief Executive of HKSAR, unveiled the 2024 Policy Address on 16 October, setting out his vision and objectives for Hong Kong's advance from stability to prosperity.

“A reform mindset

This year's Policy Address presents a bold vision for Hong Kong, responding decisively to the nation's call for reform and progress, as emphasized in the Third Plenum of the 20th Central Committee of the Communist Party of China. Across key areas like capital markets, shipping, trade, talent development, innovation, and the Greater Bay Area, it outlines enhanced measures that deepen ongoing reforms and introduces new strategies for future growth. This forward-looking mindset of embracing change is exactly what Hong Kong needs to navigate the evolving global landscape and secure a prosperous future.



Jack Chan

*EY China Chairman and
Greater China Regional
Managing Partner*

Entitled “Reform for Enhancing Development and Building Our Future Together,” the 2024 Policy Address maintains a dual focus on economic growth and people's livelihood, consistent with the themes of the previous two years. It puts forward a host of reform measures to consolidate and further enhance Hong Kong's status as an international financial, shipping, and trade center, evolve into an international hub for high-caliber talent, and fine-tune relevant mechanisms for Hong Kong to play a greater role in China's opening to the outside world.

Reform is an ongoing journey focused on strengthening governance and innovation. The Chief Executive has proposed initiatives that advocate a low-altitude economy, digital economy, and silver economy, among others, to elevate Hong Kong's global standing and promote economic diversification. These strategies will further sharpen the city's competitiveness and foster innovation.

We are pleased to see the 2024 Policy Address incorporate several of our recommendations from last year, particularly those related to family offices, the CIES, talent attraction and retention, the I&T ecosystem, and sustainability development. We underscored the necessity of I&T in enhancing Hong Kong's competitiveness and addressing pressing social issues, especially those affecting youth and education. Our 2023 proposals included the establishment of an international education hub and expansion of training programs to develop a skilled workforce. We advocated reforms to attract high-growth enterprises to list in Hong Kong and emphasized the

critical role of integrating green finance and innovation to mitigate climate risks.

The 2024 Policy Address reflects the essence of these suggestions. We feel encouraged that the government takes time to reflect and listen to views from all walks of society to ensure its policies are adaptive, effective, and representative of the widest societal consensus.

This year, we'll continue to explore the opportunities arising from the Policy Address, focusing on enhancing the investment environment and expanding financial cooperation with regions like the Middle East and ASEAN. Key suggestions include promoting Hong Kong as an offshore RMB business hub, expanding the Bond Connect program, attracting and enhancing family offices, and offering tax concessions to attract more high-net-worth individuals, along with necessary regulatory support to boost economic growth.

We remain confident in Hong Kong's future and will continue to support its sustainable economic and social development through leading professional services and fostering a sense of pride within our communities.

“Sustainable development of Hong Kong

While underscoring the importance of carrying out reforms, the Chief Executive has also stressed that Hong Kong cannot mechanically draw on existing experiences from elsewhere but must develop its own approach that “takes heed of the prevailing circumstances and is tailored to local conditions.” Many specific measures he has proposed for land and housing, education and talent, healthcare, youth development, economic diversification and the Northern Metropolis demonstrate such a localized approach. Coupled with the Central Government's supporting policies, including the newly upgraded CEPA, this goal-driven approach puts Hong Kong on the right course to scale new heights, while contributing greatly to the country's overall reform and development agenda.



Jasmine Lee

*EY Hong Kong and Macau
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Consolidating and leveraging the advantages as an international financial center



Opportunities

Hong Kong is an international financial center, ranking third globally and first in investment environment. The Policy Address reaffirms the Government's unwavering commitment to consolidating and enhancing our status as an international financial center. Externally, expanding financial co-operation with the Middle East and the region of the Association of South East Asian Nations (ASEAN) will create further opportunities for mutual growth. For instance, the Exchange Traded Funds (ETFs) tracking Hong Kong stock indices to be launched in the Middle East will open up new sources of overseas capital. Internally, measures aimed at further optimizing the vetting processes of listing applications will strengthen Hong Kong's attractiveness for IPOs by bringing in greater certainty regarding the time required. Streamlining the arrangement for margin deposits, and refining the requirements on margin and collateral placement will boost market efficiency and reduce transaction costs.

To bolster Hong Kong's position as a premier offshore RMB business hub, strategic efforts should focus on optimizing the mutual market access framework and enhancing RMB-denominated invest products. Expanding the Bond Connect (Southbound Trading) will facilitate RMB fund flows, invigorate financial markets, attract a broader investor base and align with the country's financial development strategy.

The Hong Kong Monetary Authority (HKMA) and the People's Bank of China (PBOC) are progressing in integrating fast payment systems, enabling real-time, cross-boundary small-value payments that benefit consumers and merchants. This initiative is poised to boost economic activity, increase transaction volumes and further solidify Hong Kong's status as an international financial center.

Furthermore, adjusting the maximum loan-to-value ratio for residential and non-residential properties to 70% and the debt servicing ratio to 50% will lower entry barriers for home-buyers and investors, stimulating demand. These collective measures will enhance market diversification, promote sustainable growth and improve the overall efficiency of Hong Kong's financial system.

Hong Kong is on track to become a leading hub for family offices, driven by favorable government policies and a move toward institutionalized wealth management for long-term sustainability. Last year, we proposed expanding the scope of investments to include specific cross-border opportunities within the Greater Bay Area (GBA) under the new Capital Investment Entrant Scheme (CIES). This year, we fully support the government's initiatives to enhance the CIES, the tax concession regime for Single Family Offices (SFO) and the Top Talent Pass Scheme. These efforts demonstrate a commitment to attracting ultra-high-net-worth individuals and families with diverse investment portfolios, as well as fostering a talent pool.

To further promote the shipping business in Hong Kong and enhance the maritime industry, implementing tax concessions and support measures to attract commodity traders can be instrumental. These initiatives, in addition to enhancing existing tax policies, will bolster Hong Kong's position as an international shipping hub, aligning with national objectives and solidifying its role as a "super-connector" and a "super value-adder" in the global maritime industry.

Regarding the liquor trade, the government's immediate reduction in duty for liquor priced above HK\$200 - from 100% to 10% for the portion above HK\$200 - reflects a commitment to boosting the economic growth and establishing Hong Kong as a prominent trading hub for liquor products. Additionally, the government's efforts to differentiate between high-value and low-value liquors aims to mitigate potential impacts on the local community.

Further considerations

- ▶ Organize more international financial mega events
- ▶ Explore further collaboration with Islamic markets in the area of finance
- ▶ Support fintech development and fostering innovative financial products that integrate with AI-driven and/or blockchain-based solutions to enhance user experience and position Hong Kong as a regional leader
- ▶ Implement phased adjustments to loan-to-value and debt servicing ratios to monitor market reactions and mitigate potential risks, allowing for fine-tuning based on real-time data and ensuring a more sustainable property market environment in Hong Kong
- ▶ Broaden the scope of qualifying transactions eligible for tax concessions for SFO
- ▶ Enhancing certainty for SFO professionals seeking work permits in Hong Kong
- ▶ Develop a dedicated center for philanthropy, e.g., incentivizing charitable giving by revising tax rules for qualifying as tax-exempt charities, and raising the deduction cap for charitable donations
- ▶ Refine regulatory frameworks that not only support tax concessions but also ensure compliance with international maritime standards, bolstering Hong Kong's reputation as a reliable trading hub
- ▶ Promote green technologies and sustainable practices to attract eco-conscious traders and enhance Hong Kong's image as a forward-thinking shipping hub
- ▶ Host events and programs to highlight Hong Kong's strategic location, favorable tax policies and robust infrastructure to position it as the premier trading hub in Asia

Harnessing AI and new technologies to transform the business landscape and drive growth in the low attitude economy



Opportunities

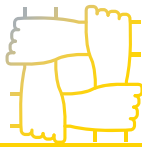
The optimized strategies for new industrialisation, establishment of the third InnoHK Research Cluster, and increased research funding and investment in I&T industries present valuable opportunities for businesses to engage in advanced research and development. Attracting international start-up accelerators will further support the growth of a vibrant innovation ecosystem. Businesses can explore new technologies, such as AI, in digital trade and ecommerce to improve efficiency and customer experience. Additionally, the government will be able to offer enhanced citizen services, while the health sector stands to benefit from the AI adoption.

The low-attitude economy will emerge as a key focus for Hong Kong and the GBA. Alongside initiatives aimed at advancing aerospace science and technology, opportunity will arise in the development of drone technologies and urban air mobility solutions, facilitating new business models and services. The integration of digital and real economies, coupled with the promotion of cross-boundary ecommerce logistics, offers businesses avenues to expand market reach and streamline operations through technologies.

Further considerations

- ▶ Monitor and navigate through evolving regulations (such as those pertaining to trustworthy and ethical AI practices) to ensure compliance while fostering innovation
- ▶ Embed sustainable practices into technology development to enhance long-term viability and gain public support
- ▶ Invest in education and training to address skill gaps in emerging technologies, such as AI
- ▶ Implement robust cybersecurity measures to protect data and maintain trust
- ▶ Streamline the application process for I&T Industry-Oriented Fund; conduct evaluations not only on individual projects but also on their potential contributions to overall industry development

Accelerating the development of Northern Metropolis to fully embrace the golden opportunity of the GBA



Opportunities

The integration of Hong Kong within the Greater Bay Area (GBA) has reached a critical juncture with the expedited development of the Northern Metropolis. In the 2024 Policy Address, the Hong Kong government has proposed a pilot “large-scale land-disposal” approach, aiming to expedite comprehensive infrastructure development.

By rapidly increasing land availability, this initiative is poised to remove barriers to innovation and technology expansion, providing technology companies with ample space for their entire operational spectrum while providing essential supporting infrastructure and facilities such transport connectivity, housing and commercial spaces.

The government’s commitment is further evidenced by its proactive planning for the Northern Metropolis University Town, industrial parks, and associated infrastructure. As key projects are undertaken, the region is steadily taking shape, with the first cohort of enterprises in life and health technology, artificial intelligence, and data science set to establish their presence in the Hetao Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone in the relatively near future.

The ongoing development of the Northern Metropolis is instrumental in attracting world-class R&D capabilities and talent to Hong Kong and the broader GBA. This influx of innovation-driven entities is expected to catalyze substantial economic growth, drawing financial institutions to the area to serve the burgeoning technology sector. Ultimately, this transformative process is poised to foster industrial diversification, bolster Hong Kong’s financial industry, and reinforce its status as a global financial hub as well as enable the export of world leading innovation and R&D across multiple sectors.

Further considerations

- ▶ Leverage the GBA’s unique advantages to pioneer new applications for emerging aviation technologies
- ▶ Facilitate secure cross-boundary data flows to unlock economic opportunities beyond financials and healthcare
- ▶ Enhance workforce mobility within the GBA through mutual recognition of technology credentials
- ▶ Advance e-government and support SME digital transformation to build a tech-powering Hong Kong
- ▶ Foster multilateral cooperation across aviation, logistics networks and customs

Nurturing, attracting, and retaining high-caliber talent to establish Hong Kong as an international talent hub



Opportunities

Despite the effectiveness of the various talent admission schemes rolled out since 2022, Hong Kong is projected to face a significant talent shortage across all sectors in the next five years. To address this, the government will implement new measures to enhance the existing schemes, including expanding the Top Talent Pass Scheme, extending visas and promoting policy coordination across education, technology and talent sectors. These measures aim to boost Hong Kong’s attractiveness to international high-caliber talent.

Furthermore, the government is committed to nurturing future talent by establishing the “Study in Hong Kong” brand through promotional campaigns, scholarships, improved student hostel facilities and other incentives. It will also advance the development of universities of applied sciences (UAS) and introduce the “Northern Metropolis University Town Development Conceptual Framework” in 2026 to encourage cooperation between local and international institutions. These initiatives complement talent attraction efforts and strengthen Hong Kong’s long-term talent strategy.

Further considerations

- ▶ Increase support for newly arrived talent and their families by offering language courses, community integration activities and mental health support to help them adjust to life in Hong Kong
- ▶ Promote internship and training opportunities for students through collaboration between institutes and enterprises to enhance their experience and competitiveness in the job market
- ▶ Leverage the diverse academic disciplines at the Hong Kong Metropolitan University (HKMU), as the first recognized UAS in Hong Kong to facilitate cultural exchanges. Universities can co-organize cultural activities with multinational companies, boosting the city’s global appeal

Driving sustainability as Hong Kong’s vision for green energy and cultural exchange



Opportunities

Aligned with Hong Kong’s carbon-neutrality targets, the ongoing development of the new energy transport industry, including green maritime fuel bunkering facilities and sustainable aviation fuels, present a crucial opportunity to tackle hard-to-abate emissions and elevate Hong Kong’s status as a global shipping and aviation hub. Collaboration with innovation and technology partners will be vital to accelerate the development of green maritime fuel, sustainable aviation fuel, hydrogen applications and their integration in Hong Kong. This includes exploring infrastructure opportunities following the establishment of a solar-to-hydrogen demonstration facility.

In furthering the social advancement of Hong Kong, the Policy Address places particular emphasis on promoting arts, culture and creative projects in society to cement Hong Kong’s position as an East-meets-West center for international cultural exchange. The support for the West Kowloon Cultural District as a premier tourism landmark is welcomed, serving as a springboard to showcase curated programs and exhibitions locally, in Mainland China and abroad.

Further considerations

- ▶ Support sustainability-driven technological innovations, including new energy transportation, by offering funding for green maritime and aviation fuel developments, fostering innovation and accelerating the transition to low-emission solutions
- ▶ Monitor and explore ESG and infrastructure opportunities for urban redevelopment and expansion, encompassing district renewal, the Northern Metropolis and the upcoming CBD3 at Kau Yi Chau Artificial Islands
- ▶ Infuse green and cultural initiatives into accessible arts and social programs to raise awareness and drive community engagement, reinforcing Hong Kong’s image as a leader in sustainability and cultural exchange

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