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## Decoding the 2023 Policy Address: Industry Oriented Approach at the Centre of Future Development

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On October 25, John Lee Ka-chiu, Chief Executive of the Hong Kong Special Administrative Region, presented his second Policy Address entitled “A Vibrant Economy for a Caring Community”. This marks a significant milestone as the first Policy Address released after the return of normalcy post-pandemic, and also the first since the establishment of the Chief Executive’s Policy Unit in December 2022, garnering widespread attention. The current administration has responded in a targeted manner to enduring issues in Hong Kong. It has introduced a comprehensive top-level design in policymaking, providing clear development plans. Notably, the development of the Northern Metropolis will span 20 years. The overall developmental direction ensures policy continuity, fostering confidence among investors and Hong Kong citizens. The Policy Address encompasses a wide range of areas, incorporating practical measures and long-term visions aimed at tackling Hong Kong’s structural challenges. This article will focus on the economic development aspects and examine how the proposed policies by the Chief Executive will contribute to Hong Kong’s future development.

### I. Expanding Hong Kong’s Future Economic Development Capacity through the Northern Metropolis

It has been over two years since the unveiling of the Northern Metropolis Development Strategy at the end of 2021, with an initial emphasis on blueprints and concepts. This year’s Policy Address has provided additional details on the Northern Metropolis development, marking a shift towards concrete planning. New progress can be summarised into three major aspects. **Firstly, the geographical delineation of the Northern Metropolis will become more distinct**, strategically planned for diverse uses based on location and surroundings. From the west to the east, the Northern Metropolis will be divided into four major zones. These are a high-end professional services and logistics hub, innovation and technology ( I&T ) zone, boundary commerce and industry zone, and a blue and green recreation, tourism and conservation circle. The different positioning will help attract enterprises in the associated industries to cluster together, creating an industrial cluster effect that could promote the development of the industries and enhancing competitiveness. **Secondly, the Northern Metropolis will be steered towards the development of various industries**, leveraging industrial policies to nurture emerging sectors

and expedite the diversification of Hong Kong’s economy. This shift will contribute to establishing a “South-North dual engine” industry pattern that combines finance and I&T, fundamentally altering the past Central-focused development model. **Thirdly, market forces will play a pivotal role in the development process.** The Government will establish the Committee on the Financing of Major Development Projects, led by the Financial Secretary, and the Office for the Financing of Major Development Projects to advise on feasible investment and financing options, taking advantage of market capital and efficiency. These two bodies will assess the feasibility of bringing in private investors for major projects including the Northern Metropolis and the Kau Yi Chau Artificial Islands, and thoroughly evaluate their financial viability to ensure the Government’s fiscal sustainability.

The Northern Metropolis will serve as a new engine for Hong Kong’s future development, with the outlined measures contributing to two major objectives. **Firstly, ensuring a sufficient land supply in the medium to long term,** with the Northern Metropolis accounting for 40% of the targeted 7,300 hectares of future government land. This translates to over 3,000 hectares crucial for Hong Kong’s future development. The Government’s commitment to leveraging market forces -- through the extension of the “Enhanced Conventional New Town Approach” to all New Development Areas (NDAs) and in financing arrangements -- will enhance efficiency and construction standards of the Northern Metropolis while accelerate development progress. **Secondly, the adoption of industrial development as a guiding principle aims at economic diversification through the nurturing of new industries.** Given Hong Kong’s heavy reliance on the services industry, particularly financial services, diversification has become increasingly pivotal. The lagging development in the New Territories will be addressed, aiming to achieve a better “home job balance”. Diversification will not only help reduce reliance on a single industry and bolster Hong Kong’s economic resilience, but also provide more quality employment opportunities in the New Territories and promote social harmony and stability.

**Table 1: Four major zones and characteristics of the Northern Metropolis**

Four major zones	Characteristics
High-end professional services and logistics hub	Covering Hung Shui Kiu and the surrounding area, and connecting with the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone, the hub will provide financial and professional services, on top of capitalising on the locational advantages of the boundary control points (BCPs) for developing the modern logistics industry
I&T zone	Covering San Tin Technopole including the Hong Kong-Shenzhen Innovation and Technology Park in the Loop, it will create synergy with the Shenzhen Innovation and Technology Zone and serve as a hub for I&T development
Boundary commerce and industry zone	Occupying the largest stretch of land, this zone enjoys the geographic advantages of the BCPs at Lo Wu, Man Kam To and Heung Yuen Wai. Apart from driving the development of industries such as advanced construction, green environment industries, health care, food technology and modern logistics, this zone will promote cross-boundary business services and entertainment spending, giving full play to its powerful function as a BCP commercial zone
Blue and green recreation, tourism and conservation circle	Comprising areas endowed with rich cultural heritage and natural resources, such as Robin’s Nest, Sha Tau Kok and Yan Chau Tong, this circle will promote recreation and tourism development

Sources: 2023 Policy Address, BOCHK Financial Research Institute

## II. Cultivating New Economic Growth Points with an Industry Oriented Approach

The Policy Address emphasises that Hong Kong's future development will be steered by the Northern Metropolis with a focus on industry-oriented policies. Notably, the term "industries" appears 35 times in the Chinese version of the Policy Address, marking an increase of eight times compared to the previous year. Additionally, the term "industry-oriented" makes its debut this year, appearing six times. The Policy Address mentions that apart from reinforcing the strengths of such traditional sectors as finance, trading, logistics, shipping and professional services, the Government will explore new growth potential with industry oriented approach, developing such emerging strategic areas as I&T, creative industries, pharmaceutical research and development (R&D), Chinese medicine and new energy transport.

Industrial policies are formulated by the Government and typically aim to promote the development of domestic industries through measures such as financial support, tariffs, trade restrictions and subsidies. The Government may provide tax concessions, direct funding or favourable terms for land use to encourage domestic industries, and also formulate favourable procurement policies to stimulate demand. **Since the inauguration of the current-term Government, its governance philosophy has shifted from positive non-interventionism and big market, small government in the past to the clear pursuit of a better combination of active government and efficient markets.** This new direction implies that the Government will participate more actively in economic activities, providing more support and guidance to become industry promoters and fostering a more diversified economic structure. This will help address Hong Kong's narrow economic focus and reliance on the financial services industry, and will help expedite the realization of the "Eight Centres" outlined in Hong Kong's positioning under the 14th Five-Year Plan. These include the international financial centre, international innovation and technology centre, East-meets-West centre for international cultural exchange, international trade centre, international shipping centre, international aviation hub, centre for international legal and dispute resolution services in the Asia Pacific region as well as regional intellectual property trading centre.

**Beyond fostering economic diversification, the adoption of industrial policies will also enhance Hong Kong's competitiveness across various areas and strengthen its international status and soft power. This will not only attract more international enterprises and talents, but also inject fresh impetus into Hong Kong's economy, fostering sustainable development.** It is worth noting that the SAR Government, traditionally a regulator or facilitator in economic development, now assumes the role of an industry promoter. This shift underscores the need for strengthening relevant training and professional knowledge. Singapore serves as a valuable reference in this context, given its government's proactive approach, with Temasek — a government-owned investment company— actively investing in enterprises of strategic significance. Meanwhile, maintaining the vitality and efficiency of the economy while promoting industries will represent a challenge for Hong Kong.

## III. Strengthening Hong Kong's Position as an International Financial Centre

The development of I&T in the Northern Metropolis is a gradual process. According to the Government's outlined timetable, the entire project will take shape over the coming five to ten years, and the development will be substantially completed in 20 years. Over the next 10 years, there will be three important milestones: formulation of land use and development programs for all new land development projects by 2024, activation of land resumption procedures for all major development projects by 2027, and the completion of 40% of land formation and new flats by 2032. Regarding I&T, the first batch of I&T enterprises in San Tin Technopole is expected to move in between 2029 and 2033. In essence, **although the sector holds significant promise for Hong Kong's future and is anticipated to emerge as a key economic growth engine, the Northern Metropolis development spans over 20 years. The establishment and refinement of the I&T industry ecosystem require time and patience. In the foreseeable future, the financial services industry will remain as a vital pillar of Hong Kong's economy. In that connection, the Policy Address unveiled a series of measures aimed at reinforcing Hong Kong's position as an international financial centre and upholding its competitiveness. These measures align with three key objectives.**

**First, there is a focus on consolidating the competitiveness of the stock market.** The recent decline in turnover for Hong Kong stocks has undermined the interest of enterprises in listing on the city's stock market, posing challenges to Hong Kong's position as an international financial centre. In view of this, the Policy Address announces the

**Table 2: Industrial policies**

Industry	Measures
I&T	The New Industrialisation Development Office be established under the Innovation, Technology and Industry Bureau and led by the Commissioner for Industry, the office will adopt an industry-oriented approach to promote new industrialisation in Hong Kong, support strategic enterprises to develop their businesses in Hong Kong, assist the manufacturing sector in upgrading and transformation by making use of I&T, and provide support for start-ups
	Establish the Hong Kong Microelectronics Research and Development Institute next year to lead and facilitate collaboration among universities, R&D centres and the industry, which will include exploring the third-generation semi-conductor core technology and leveraging the GBA's well-developed manufacturing supply chains and enormous market. The newly-built Microelectronics Centre will also be commissioned next year to provide advanced infrastructure and hardware facilities designated for microelectronics
Cultural and creative	The Culture, Sports and Tourism Bureau (CSTB) to promulgate and implement the Blueprint for Arts and Culture and Creative Industries Development
	Inject a total of \$4.3 billion to the Film Development Fund and the CreateSmart Initiative to provide incentives for attracting private sector capital and expanding new markets
	Create Hong Kong will be restructured as the Cultural and Creative Industries Development Agency, which will proactively promote the development of arts, culture and creative sectors
Trade	In the Action Plan on Modern Logistics Development, to be published, the Government will formulate strategies and action measures to realise smart development, modernisation, green and sustainability, internationalisation and facilitation, with a view to promoting high-quality and development of the logistics industry
Shipping	The Transport and Logistics Bureau will publish an action plan later this year to enhance high-end maritime services, facilitate transformation towards zero emission, promote smart initiatives and digitalisation in the maritime industry, and promote exchanges and collaboration among maritime industries in the GBA and around the world
Tourism	To formulate the Development Blueprint for Hong Kong's Tourism Industry 2.0 in order to make enhancements in various aspects to complement tourism development. The Blueprint 2.0 will be published next year. An action plan on the development of cruise tourism economy will be announced in the first half of 2024 aiming to attract more cruise ships to Hong Kong and strengthen Hong Kong's competitiveness as Asia's cruise hub in the long run
Chinese medicine	The Commissioner for Chinese Medicine Development, who is anticipated to assume office early next year, will co-ordinate the professional and policy development of Chinese medicine, and liaise with the Chinese medicine sector to formulate a comprehensive Chinese Medicine Development Blueprint for release in 2025
Education	Reserve sites in Hung Shui Kiu, the New Territories North New Town, etc. for the development of post-secondary institutions to build the Northern Metropolis University Town. The Government is committed to developing Hong Kong into an international hub for tertiary education

Sources: 2023 Policy Address, BOCHK Financial Research Institute

Government's acceptance of the recommendations of the Task Force on Enhancing Stock Market Liquidity to introduce measures to reduce transaction costs, enhance the trading mechanism and reform the GEM (formerly known as the Growth Enterprise Market). Among the measures, the adjustment of the stamp duty rate on stocks from 0.13% to 0.1% has garnered significant market attention. This revision, reverting to the pre-August 1, 2021 level, applies to both buyers and sellers based on the transaction amount. While stock market performance and turnover are influenced by diverse factors such as investors' expectations, economic performance, capital flows, company results, and the continuity of listings from promising companies, recent market weaknesses have been exacerbated by macro factors such as rising interest rates, geopolitical tensions, and global economic uncertainty. Although these new measures may not alter macro fundamentals, they send a signal to the market that the Government is responsive to market conditions, potentially boosting the overall investment climate and economic confidence.

**Second, there is a focus on reinforcing the competitiveness as the financial centre.** The Policy Address presents measures to bolster offshore Renminbi (RMB) business, deepen financial co-operation within the Greater Bay Area, establish a new platform to expand fund distribution, and promote the development of green and sustainable finance in Hong Kong. Notably, the Government emphasizes its commitment to advancing the inclusion of RMB counters under the Southbound Trading of Stock Connect to facilitate the trading of Hong Kong stocks in RMB. Additionally, efforts will be directed towards introducing offshore Mainland government bond futures and enriching the variety of RMB investment products in response to market demand. These measures aim to further broaden the shareholder base of Hong Kong stocks, enhance stock liquidity, and eliminate exchange rate risks for Mainland investors. Hong Kong consistently ranked third in the Global Financial Centres Index by the Z/Yen from the United Kingdom and the China Development Institute from Shenzhen since 2007, behind New York and London. However it slipped to fourth place by the end of 2022, trailing behind Singapore. Strengthening offshore RMB business will help enhance Hong Kong's role in international trade, investment and financing and its competitiveness as an international financial centre. Serving as a key platform for the internationalization of RMB, Hong Kong can offer convenient RMB trading and clearing services, along with a more diverse array of financial instruments and services.

**Third, there is a focus on attracting talents.** The Policy Address proposes to re-launch the Capital Investment Entrant Scheme (CIES). The Scheme was implemented from 2003 to 2015 to attract foreign capital and talents to Hong Kong. Re-launching the Scheme will not only attract high-end talents, but also increase the demand for asset and wealth management, financial and related professional services in Hong Kong. The Policy Address also proposes that the Buyer's Stamp Duty (BSD) be reduced from 15% to 7.5%, which will help reduce the cost of residential property purchases by non-permanent residents of Hong Kong, and that the stamp duty arrangement of residential properties for incoming talents be revised. Previously, an incoming talent is required to pay the BSD and the New Residential Stamp Duty at the time of property acquisition and will get a refund of the stamp duty paid when the talent concerned has resided in Hong Kong for seven years and become a permanent resident of Hong Kong. Under the new arrangement, the payment of stamp duty concerned is suspended at the time of property acquisition, but the talent is required to pay the relevant amount if he/she is subsequently unable to become a permanent resident. The new arrangement will help attract foreign talents to settle in Hong Kong. In addition, foreign employees of companies registered in Hong Kong may apply for "multiple entry visas" to the Mainland, fostering an environment that encourages more foreign companies to establish a presence in Hong Kong. This facilitates their personnel in conducting business activities in the Mainland, leveraging Hong Kong's distinctive role in bridging the global and Mainland business landscapes.

## IV. Conclusion

This year's Policy Address continues its commitment to addressing deep-rooted issues in Hong Kong. The advancement of the Northern Metropolis not only addresses the challenge of insufficient housing supply but also lays the foundation for Hong Kong's future development, fostering a diversified economy through the implementation of industrial policies. These will help Hong Kong depart from the previous relatively narrow economic structure. There will also a shift to a more proactive role for the Government, serving as a promoter of industries. Action plans and blueprints for various strategic sectors contribute to policy continuity and bolster investor confidence. Simultaneously, the Policy Address places significant emphasis on the financial services industry, recognizing its pivotal role as Hong Kong's primary pillar industry. The outlined measures are designed to fortify the stock market, enhance Hong Kong's standing as an international financial centre, attract enterprises and talents, and lay the groundwork for the future development of the "South-North dual engine" industry pattern, seamlessly combining finance and I&T.

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# 主要經濟指標 (Key Economic Indicators)

	2021	2022	2023/Q2	2023/Q3
<b>一. 本地生產總值 GDP</b>				
總量 (億元) GDP(\$100 Million)	28,677	28,180	7,068	7,671
升幅 (%) Change(%)	6.4	-3.5	1.5	4.1
<b>二. 對外貿易 External Trade</b>			2023/09	2023/01-09
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	52,360	48,138	3,803	30,313
進口 Total imports	52,113	48,586	4,449	33,824
貿易差額 Trade balance	247	-448	-646	-3,510
年增長率 (%) YOY Growth(%)				
總出口 Total exports	18.7	-13.9	-5.3	-12.3
進口 Imports	17.2	-13.2	-0.4	-9.7
<b>三. 消費物價 Consumer Price</b>				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.6	1.9	2.0	1.9
<b>四. 樓宇買賣 Sale &amp; Purchase of Building Units</b>				
合約宗數 (宗) No. of agreements	96,133	59,619	3,893	47,801
年升幅 (%) Change(%)	31.1	-38.0	-19.5	-0.2
<b>五. 勞動就業 Employment</b>			2023/06-2023/08	2023/07-2023/09
失業人數 (萬人) Unemployed(ten thousands)	20.3	16.3	11.2	11.4
失業率 (%) Unemployment rate(%)	5.2	4.3	2.9	3.0
就業不足率 (%) Underemployment rate(%)	2.6	2.3	1.0	1.0
<b>六. 零售市場 Retail Market</b>			2023/09	2023/01-09
零售額升幅 (%) Change in value of total sales(%)	8.1	-0.9	13.0	18.6
零售量升幅 (%) Change in volume of total sales(%)	6.5	-3.4	10.1	16.5
<b>七. 訪港遊客 Visitors</b>				
總人數 (萬人次) arrivals (ten thousands)	9.1	60.5	277.2	23,322.0
年升幅 (%) Change(%)	-97.4	561.5	4,097.4	9,240.0
<b>八. 金融市場 Financial Market</b>			2023/08	2023/09
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	779.8	780.8	784.7	783.0
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	8.0	-20.7	-18.5	-19.1
M2	4.3	1.6	1.4	2.3
M3	4.3	1.6	1.4	2.3
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	4.6	1.7	0.6	0.2
港元存款 In HK\$	1.4	0.7	0.4	-0.3
外幣存款 In foreign currency	7.9	2.6	0.8	0.7
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	3.8	-3.0	-0.3	-0.9
當地放款 use in HK	4.7	-0.2	-0.2	-0.6
海外放款 use outside HK	1.7	-10.0	-0.5	-1.8
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.6250	5.8750	5.8750
恒生指數 Hang Seng index	23,398	19,781	18,382	17,810