A Study of Trends and Challenges Facing Hong Kong
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I. ABOUT THE HONG KONG MANAGEMENT ASSOCIATION

Established in 1960, The Hong Kong Management Association (the Association) is an apolitical and non-profit-making organization with the vision to be the leading professional organization advancing management excellence in Hong Kong and the Region.

Vision

To be the leading professional organization advancing management excellence in Hong Kong and the Region.

Mission

- To promote best practices in management
- To nurture human capital through management education and training at all levels
- To provide members with a platform for exchange of ideas, networking and personal development

Values

- Continuous improvement
  We embrace best practices through continuous improvement.
- Innovation
  We welcome new ideas, seek out new skills and capabilities, and explore new concepts.
- Integrity
  We are open, honest and forthright in our dealings.
- Professionalism
  We strive for excellence in all we do.
- Respect for Individuals
  We built relationships based on trust and respect.
- Sustainability
  We integrate sustainability into all aspects of our operations and business practices.

Services provided by the HKMA can be categorized into three major areas, namely education and training; management services and membership services.

With a commitment to nurturing human capital through management education and training at all levels, the HKMA offers around 2,000 training and education programmes covering a wide range of management disciplines for some 50,000 executives every year. From distance learning courses, seminars and workshops, certificates, diplomas, all the way to bachelor, master and doctorate degree programmes in conjunction with prestigious overseas universities, these programmes are suitable for executives at different stages of development. The HKMA also provides specially designed in-house training which geared to the particular needs of different organizations. In 2009, the Association introduced the Corporate University scheme, which helps companies retain quality staff and build a corporate culture of lifelong learning.

In 2015, the Association established the Institute of Advanced Management Development (AMD). Through collaborations with world-renowned universities and organizations such as Cornell University, University of Cambridge, Yale University, Fudan University, Peter Drucker Academy and UNESCO Hong Kong Association, AMD offers a series of high profile training and education activities as well as provides management consulting services.
In 2017 and 2018, the Association launched the Institute of Healthcare Management (HCM) and Academy for Retail Innovation and Management (ARIM) respectively. The HCM aims to offer world-class healthcare management programmes and to serve as a learned platform for healthcare professional development with a view to making significant contribution to advancing management excellence in the healthcare sector in Hong Kong and the Region; while the ARIM aims to offer advanced retail management courses and to serve as a learning platform for retail practitioners with a view to making significant contributions to advancing management excellence in the retail sector in Hong Kong and mainland China; to provide a network for experts to interact with retail professionals and practitioners; and to promote best practices and innovative ideas relevant to the retail sector.

The Association believes learning while networking works best for achieving continuous development. Diversified management services are offered to provide platforms for business executives to exchange ideas, to network and to gain professional development. Annually, the Association organizes diverse functions such as Annual Conference, Theme Year Seminars and Activities and Dinners. Prominent business leaders are invited to share their invaluable insights and wisdom on the most updated trends and development of management.

Business award is another major area of HKMA’s management services. To promote best practices in management, each year, the Association organizes eight business awards in Hong Kong and the Mainland. These include the Best Annual Reports Awards, the HKMA Quality Award, the Award for Excellence in Training and Development, the HKMA/TVB Awards for Marketing Excellence, the Hong Kong Sustainability Award, the Hong Kong Management Game, the Distinguished Salesperson Award and the Award for China Marketing Excellence. These prestigious awards, which are now regarded as the highest accolades of the business community, provide an exemplary model for business professionals to follow and benchmark.

With a total of over 13,000 members including individuals and corporates, membership service has always been a priority for the Association. A comprehensive range of membership activities such as seminars, forums, luncheons, company visits, study tours and social gatherings are offered every year. Another distinctive feature of membership is the seven autonomous specialist clubs which provide opportunities for members with similar interests to meet and develop further their specialist knowledge. The highlight event of membership is the Annual Fellowship Dinner which provides an excellent platform for members to extend their network.
II. TRENDS AND KEY CHALLENGES FACING HONG KONG

1. ECONOMIC FACTORS

Less Even Expansion with Rising Trade Tensions

Global economic growth is projected to reach 3.7% in 2019, 0.2% lower than for 2018 and forecast for 2019 in April 2018.¹ The rate of expansion appears to have peaked in some major economies and growth has become less synchronized. Among advanced economies, growth divergences between the United States on one side, and Europe and Japan on the other, are widening. Growth is also becoming more uneven among emerging markets and developing economies, reflecting the combined influences of rising oil prices, higher yields in the United States, sentiment shifts following escalating trade tensions, and domestic political and policy uncertainty.²

European Economies

Growth in the Eurozone has slowed to its lowest level in over four years, as the region’s recovery runs out of steam. Eurozone’s gross domestic product (GDP) only rose by 0.2% in July-September 2018, down from 0.4% in April-June in 2018, with the trade war denting business confidence and foreign sales.³ The Eurozone economy has been closely watched for any sign of weakening amid an intensifying global trade war.⁴ Given the waning growth of new business and a further slide in business optimism, the outlook has also deteriorated, notably in manufacturing, where worries about trade wars have intensified. The Purchasing Managers Index for the Eurozone fell to 52.7 in October 2018, down from 54.1 in September 2018, hitting a 25-month low.³ The unemployment rate has fallen to its lowest since November 2008 to 8.1%.⁶ Eurozone inflation rose by 2.2% in October 2018, the fastest pace in nearly six years, driven by strong energy prices. The headline figure supported the European Central Bank’s decision to end its price-boosting bond-buying programme at year-end, as inflation is now overshooting the European Central Bank’s target of price growth below, but close to, 2% over the medium term.⁷

Germany’s GDP shrank 0.2% in the third quarter of 2018. It is the first time the German economy has seen a contraction in more than three years. The slight decline in GDP compared to the previous quarter was mainly due to foreign trade developments. Provisional calculations showed that there were fewer exports, but more imports in the third quarter of 2018 than in the second. The German government had flagged up potential bottlenecks in the car industry in the third quarter of 2018, stemming from the introduction of new pollution standards, as an economic factor.⁸

France’s economic growth accelerated in the third quarter of 2018, rebounding from a sluggish first half thanks to the strongest consumer performance in a year. The 0.4% increase in GDP was twice as fast as the pace recorded in the previous period. However, the outlook for France’s economy was also uncertain. Even as tax cuts for workers kick in October 2018, households were facing rising fuel prices. Meanwhile, businesses were struggling to find skilled workers, even with an unemployment rate of around 9%.⁹ According to the Bank of France’s business sentiment report, the recent Yellow Vests protests in France would create a negative impact on industrial production and services activity. A slowdown will be another blow to Emmanuel Macron, and will put further pressure on public finances. Macron bowed to public pressure to abandon a fuel-tax increase that sparked the Yellow Vests movement. Economic activity may rebound if the protests subside in the near future, but some of the most impacted sectors such as agriculture, restaurants and hotels would not catch up lost business.¹⁰

The UK economy kept up its healthy momentum during the third quarter of 2018, but this might prove a high watermark ahead of Brexit. UK’s GDP in the three months to September 2018 was 0.6% higher than in the previous quarter. However, business investment contracted at the fastest pace by 1.2% since early 2016, adding to signs of rising caution among companies ahead of Brexit in March 2019.¹¹ Official figures showed that the
manufacturing sector slumped into recession for the first time since the Brexit vote. The manufacturing industry recorded its second consecutive quarter of negative growth since the first quarter of 2016. Britain’s trade deficit also widened by £4.7 billion to reach £8.6 billion in the three months to June 2018, due mainly to falling exports of goods and higher levels of imports. The figures also showed the UK becoming more reliant on the EU for trade. Over the past year, exports and imports of goods to and from the EU increased more compared with non-EU countries.12

The IHS Markit/CIPS Manufacturing Purchasing Managers’ Index (PMI) fell sharply to 51.1, its lowest since July 2016, from a downwardly revised 53.6 in September 2018. Foreign demand fell for the second time in the third quarter of 2018 as many manufacturers were worried about the risk of border delays which would affect their just-in-time processes. At the critical point in Brexit, Prime Minister Theresa May faced opposition to her Brexit plan from within her own Conservative Party while so far failing to find common ground with other EU leaders, raising fears that Britain could leave the EU without a transition deal.13 An analysis of Britain’s creditworthiness conducted by Moody’s, the debt rating service, showed that the impact of Brexit on UK’s GDP was more benign than the pre-referendum forecasts. The full effects of Brexit have yet to kick in. Business activity appeared to be weakening alongside recent deterioration in consumption indicators.14

**US Economy**

The US economy grew at a faster rate than expected in the third quarter of 2018. GDP increased at an annualized rate of 3.5%, the strongest back-to-back quarters of growth in four years. Strong consumer confidence supported consumer spending. Personal consumption increased at a 4% rate, the strongest since 2014.15

American workers enjoyed the biggest leap in pay since 2009 as job gains topped forecasts and the unemployment rate was 3.7%, a 48-year low. Average hourly earnings for production and non-supervisory workers increased 3.2% from a year earlier while the participation rate increased to 62.9% from 62.7% in September 2018. The figures provided reassurance that the economy is on sound footing. The breadth of job creation remained solid, which was an important indication that the escalation of trade tensions is not being whitewashed by short-lived fiscal stimulus stemming from tax cuts.16

The US Federal Reserve raised the target range for the federal funds rate by 25 basis points to 2.25-2.5% during its December 2018 meeting. It was the fourth hike in 2018 on the back of solid economic growth and strong labour market and despite heavy criticism from President Donald Trump.17 On the upside, Federal Reserve noted that the unemployment rate has declined since September 2018. However, it also noted that the growth of business fixed investment has moderated from its rapid pace earlier in the year.18 PCE price index, a measure of underlying inflation, hit the Federal Reserve’s 2% target for the third time this year in July 2018. The rate hit the US Central Bank’s 2% inflation target in March 2018 for the first time since April 2012.19 Chairman Jerome Powell said if the strong growth in income and jobs continues, further gradual increases in the target range for the federal funds rate is likely to be appropriate.20

In the meantime, President Donald Trump’s trade policies posed the greatest threat to global economic growth.21 The US has imposed three rounds of tariffs on Chinese goods, totalling more than US$250 billion. They covered a wide range of consumer and industrial items including handbags, rice and railway equipment.22 Despite the imposition of tariffs and counter-tariffs, the US trade deficit in goods widened for a fourth straight month in September 2018, bringing it to US$76 billion, according to the Census Bureau. The data showed exports grew by 1.8% from August to September 2018. Imports expanded by 1.5% to US$217 billion from US$213.9 billion on a month-over-month basis.23 American farmers were struggling to sell their products as tariffs introduced during the trade war between the US and China stifled demand. The Trump administration has started a programme of subsidies meant to lessen the impact of his trade war on US agriculture. Tensions between the two sides appeared to be waning, with the US signaling a more conciliatory stance when it came to tariffs.24 President Donald Trump has since threatened to hit another US$267 billion worth of goods, meaning all Chinese imports could be subject to tariffs.25
China Economy

China’s economic growth slowed more than expected to the weakest pace since the first quarter of 2009 as the country’s trade war with the US put pressure on growth. The world’s second-largest economy grew 6.5% year-over-year in the third quarter of 2018, which came in lower than the 6.7% year-over-year expansion in the previous quarter.26 There were signs that the Chinese economic growth might be decelerating. According to data disclosed by the People’s Bank of China, based on preliminary statistics, aggregate financing to real economy (flow) in China in October 2018 amounted to RMB728.8 billion, down RMB471.6 billion from the year-ago period.27 The industrial production for September 2018 grew 5.8% compared to a year ago, missing expectations of a 6% expansion.28 Retail sales growth in China unexpectedly dipped to the slowest pace since May 2018 while real estate sales decelerated further. Sales rose 8.6% year on year in October 2018, down 0.7 percentage points from September 2018’s level and coming in markedly below a median forecast of 9.1%. Fixed asset investment accelerated in October 2018 from a record low touched in August 2018 with a rise of 5.7% in the year to date, besting expectations of a 5.5% rise.29

The People’s Bank of China has cut banks’ reserve requirements (RRR) three times in 2018 to encourage banks to keep lending to struggling firms, and it has injected liquidity in various ways to bring down borrowing costs. The government was also ramping up spending on big-ticket infrastructure projects to spur domestic demand and lift investment growth from record lows. China’s banks extended RMB1.3 trillion in net new loans in August 2018, easing from July 2018’s RMB1.45 trillion but nearly 20% more than the same month in 2017.30 Despite a possible economic slowdown, Chinese Premier Li Keqiang seems to have ruled out a bigger fiscal boost to lift the domestic economy. The budget deficit target has been lowered to 2.6% of GDP for 2018 from 3% a year earlier. While the actual fiscal shortfall turned out to be 3.7% of GDP in 2017, the smaller budget deficit target still indicated that authorities were no longer willing to pay a high price to maintain a fast rate of economic growth for 2018.31 GDP growth is projected to slow down in the next two years as exports moderate and greater emphasis is put on the quality rather than the pace of growth. Inflation is expected to remain subdued as producer price growth has been moderate and there is no imminent pressure on consumer prices either.32

However, the latest economic data added weight to the argument that the slowdown in China’s economy was getting worse as the trade war with the US dampened consumer confidence and hurts sale of goods such as cars and electronics. Total vehicle sales dropped 11.7% from a year earlier to RMB2.38 million in October 2018. China’s biggest e-commerce firms were under pressure from slower consumer demand. Alibaba revised down its full-year revenue estimate, and said earnings would be 4% to 6% lower than projected. Cyclical factors such as the trade war threat and domestic slowdown have also led to the slowdown of consumer durables. In particular, consumer durables consumption is directly related to consumer confidence, which has been seriously dampened by the trade tensions between China and the US. There are no signs that consumer confidence will pick up soon, giving expectations that the trade war could escalate at the beginning of 2019.33

Hong Kong Economy

The Hong Kong economy grew solidly by 2.9% in the third quarter of 2018 over a year earlier. This was above the trend growth rate of 2.7% per annum in the past ten years for the eighth consecutive quarter. Despite the impact of the US-Mainland trade conflicts began to surface, Hong Kong’s exports of goods continued to grow notably for the third quarter of 2018. Total exports of goods grew notably by 5% in real terms in the third quarter of 2018 over a year earlier, after a similar 4.6% growth in the second quarter of 2018.34

The labour market remained tight in the third quarter of 2018. The seasonally adjusted unemployment rate stayed at a 20-year low of 2.8%. Domestic demand remained largely resilient. Private consumption expenditure expanded by 5.2% in real terms over a year earlier. Local consumer sentiment continued to be buttressed by favourable job and income
conditions, though the wealth effect may have turned less supportive amid the stock market corrections. Government consumption expenditure grew steadily by 3.3% in the third quarter of 2018, following the 4.3% growth in the preceding quarter.\(^{35}\)

However, the residential property market showed some cool-off. The number of residential property transactions fell by 24% from 18,900 in the second quarter of 2018 to 14,400 in the third quarter of 2018. Overall flat prices edged down by 1% during the third quarter of 2018. Notwithstanding the latest declines, prices in September 2018 were still higher than the 1997 peak by 125%.\(^{36}\) The index of home purchase affordability stayed elevated at around 74% in the third quarter of 2018. Between June and September 2018, flat rentals rose further by 2%. Over the same period, shop and office prices increased by 2% and 6% respectively, and their rentals also increased by 2% and 1% respectively.\(^{36}\)

While the global economy sustained its strong momentum in 2018, external uncertainties increased markedly as a result of the escalation of the US’ trade conflicts with the Mainland and other major economies. Moreover, as the US economy maintained above-trend growth with inflation hovering around the Federal Reserve’s target level, the market increasingly expected that US interest rates would rise faster than earlier expected.\(^{37}\) Widening interest rate gaps between the US and Hong Kong may prompt money outflows from the city and put downward pressure on the Hong Kong dollar as well as the aggregate balance in the Hong Kong banking system.\(^{38}\) As a result, major banks in Hong Kong raised their benchmark lending rates, or prime rates, for the first time in 12 years.\(^{39}\) HSBC was the first to announce a new rate, raising its prime rate by 12.5 basis points to 5.125% while its savings rate for Hong Kong dollar savings deposits rose to 0.125% from 0.001%.\(^{40}\) According to Financial Secretary Paul Chan Mo-po, Hong Kong’s low-rate environment has prevailed for over 10 years and it was inevitable that banks would have to raise rates. Higher interest rates burden, the uncertainties brought on by the US-China trade conflict, and external uncertainties related to the emerging markets pose a high risk to Hong Kong’s asset market.\(^{41}\) The Hong Kong Monetary Authority Chief Executive, Norman Chan Tak-lam reminded that the public needed to manage risks and prepare for an economic downturn and market volatility in 2019.\(^{41}\)

Harnessing Opportunities for the Financial Services Industry

Hong Kong is one of the most vibrant international financial centres in the world, with the financial service sector contributing 18% to Hong Kong’s GDP.\(^{42}\) Hong Kong enjoys a clear advantage as an international financial centre, with its strategic geographical position, stable environment, transparent and robust regulatory regime, low tax, market friendliness, etc. In order to enhance Hong Kong’s competitiveness and to capture the business opportunities from the Mainland and the rest of the world, it is particularly important to strengthen the financial service industry. In the 2018-19 Budget, Government has announced that HK$500 million would be allocated to the development of financial services over the next five years in order to support the development of the bond market, green finance, FinTech, etc.\(^{43}\)

Bond Connect is a cross-border initiative that helps deepen the mutual access between the Mainland and Hong Kong’s capital markets and promote the internationalization of RMB. The scheme was launched in July 2017 and it enabled foreign investors to invest in the Mainland’s interbank bond market directly through The Bond Connect Company Limited, a joint venture established by China Foreign Exchange Trade System and the Hong Kong Stock Exchange to support Bond Connect-related trading services, without going through a range of lengthy processes.\(^{44}\) The number of registered overseas investors of Bond Connect has increased from 247 at the end of 2017 to 356 at the end of July 2018.\(^{45}\) Trading through Bond Connect kept growing, reaching a total volume of RMB 130 billion in June 2018, with a month-on-month increase of 97%.\(^{46}\) The scheme will generate greater demand for Hong Kong’s financial services such as cross-border settlement, asset management and risk management.\(^{47}\) With the launch of the Shanghai-Hong Kong Stock Connect in 2014, the Shenzhen-Hong Kong Stock Connect in 2016 and the Bond Connect in 2017, Hong Kong’s unique role as the financial intermediary between the Mainland and the rest of the world has been strengthened.
The Government has also announced a range of measures in the 2018-19 Budget to enhance Hong Kong’s competitiveness in the international bond market and to transform Hong Kong into a comprehensive financial hub, including the launch of the Pilot Bond Grant Scheme and the Green Bond Grant Scheme. The Government will earmark HK$150 million to launch a three-year Pilot Bond Grant Scheme to attract local, Mainland and overseas enterprises to issue bonds in Hong Kong. The grant scheme will cut issuer expenses by half, capped at either HK$2.5 million or HK$1.25 million.48 Besides, to attract more green bond issuers from the Mainland and international companies, Government has also launched the three-year Green Bond Grant Scheme to give a subsidy of up to HK$800,000 to eligible issuers.49

Global green finance has grown rapidly among the investment community in the past few years. In 2017, the global green bond issuance reached US$160 billion while the issuance on the Mainland amounted to around US$23 billion, ranking the second largest in terms of green bond issuance in the world.50 The Mainland has a strong demand for green funding and international green investors have a high demand for green investment opportunities. However, international investors have difficulty in making a green investment in the Mainland due to the differences in green standards and lack of understanding in the green compliance of Mainland issuers.51 As Hong Kong is well-positioned to bridge the gap between the two markets, it has high opportunities to capture the benefits from the growth of green finance. To promote green finance in Hong Kong, Government will launch the green bond issuance programme of up to HK$100 billion to provide funding for its green public work projects.52 Together with the Green Bond Grant Scheme, Hong Kong’s status as a global green financial hub will be further enhanced.

Hong Kong and Singapore are popular locations for the establishment of regional treasury centre in Asia. To better leverage the opportunities from emerging markets and to attract enterprises to set up corporate treasury centres in Hong Kong, Government has reduced the profits tax rate on specified activities of qualifying corporate treasury centres by 50% to 8.25% in 2016.53 According to the 2018-19 Budget, Government will further amend the Inland Revenue Ordinance by granting profits tax concession for corporate treasury business.54 To Chinese firms, Hong Kong is still the most favoured location for setting up overseas treasury operation. According to Asset Benchmark Research’s Treasury Review 2018, 44% of Chinese treasurers are planning to set up treasury management departments in Hong Kong while 22% of respondents favoured Singapore (22%).55 However, Singapore has a better coverage for Asia-Pacific as a whole due to the proximity to India, Australia and New Zealand and the wider Asian gateway status is increasingly attracting Chinese investment. There are 6,500 Chinese firms in Singapore and many of which have set up treasury operations.56 Furthermore, Shanghai will also become a competitor to Hong Kong as a treasury location as it aims to become a global financial centre by 2020. The Government will need further initiatives to maintain and increase Hong Kong’s attractiveness for setting up regional treasury centre.57

FinTech is undergoing explosive growth around the world, including Hong Kong. In Hong Kong, the number of FinTech startups has increased by 60% since 2015,58 with about 160 startups.59 Investment in Hong Kong’s FinTech companies increased more than doubled, from US$215.5 million in 2016 to US$545.7 million in 2017.60 In addition, banks and financial institutions become more confident about FinTech with the fact that the implementation and adoption of FinTech solutions raised to 32% and 82% of banks and institutions aim to increase partnership with FinTech companies in the next three to five years.61 On the other hand, with Hong Kong FinTech Week 2018 have grown into the world’s first cross-border financial technology event, taking place in both Hong Kong and Shenzhen, complement with the increasing number of FinTech-related events organized in Hong Kong, the city is moving a big step towards becoming a global FinTech hub.62 63

The Hong Kong Monetary Authority (HKMA) has initiated various measures to support the development and growth of the FinTech industry. A faster payment system was launched in September 2018 to support the use of mobile phone numbers or email addresses for payments in Hong Kong dollars and RMB.64 HKMA has also focused on the development of blockchain and distributed ledger technology (DLT) platforms, which includes a
memorandum signed in 2017 with the Monetary Authority of Singapore to digitalize banks’ trade finance processes between Hong Kong and Singapore using DLT.\(^\text{65}\) HKMA is also expected to issue Hong Kong’s first virtual banking licence by early 2019 in order to promote the application of FinTech, foster financial inclusion and usher in a “new era of smart banking”.\(^\text{66}\) The licences will enable banks to operate online without the need of physical branches. As of August 2018, HKMA had received 29 applications for the first batch of virtual bank licences.\(^\text{67}\) Virtual banks will largely face the same rules as traditional ones, including stringent capital requirements, leaving them little recourse but to either offer more attractive terms or much better digital experiences to attract consumers.\(^\text{68}\) With the arrival of virtual banks, the competitiveness of Hong Kong’s banking sector will be increased as banks can provide more affordable and convenient financial services.

While the adoption of FinTech becomes more common, it is important to strengthen cybersecurity awareness in order to combat new cyber threats. According to a study conducted by Microsoft, Hong Kong’s potential economic losses caused by cyberattacks could amount for HK$249.6 billion annually.\(^\text{69}\) To enhance cybersecurity awareness, the Office of the Government Chief Information Officer has launched a two-year pilot scheme, the Cybersec Infohub in September 2018 to promote security information exchange among public organizations, private sectors and the community, and to enhance Hong Kong’s overall and defensive capability and resilience against cyber-attacks.\(^\text{70}\)

Hong Kong’s market has high dependency on Mainland listing and high concentration in the financial and property sectors whereas companies from New Economy industries such as biotechnology, IT services and health care technology only accounted for 3% of the total market capitalization of the Hong Kong market, as compared with 60%, 47% and 14% for NASDAQ, New York Exchange and London Exchange respectively.\(^\text{71}\) It is forecasted that China’s biologics industry will double in size to US$52 billion by 2021, with a global growth rate of 60%.\(^\text{72}\) However, Hong Kong’s relatively low exposure to companies in high growth sectors will reduce investors’ interest and make it less competitive. In order to attract companies from emerging and innovative sectors to list in Hong Kong, the Hong Kong Stock Exchange has amended the Listing Rules to allow the listing of biotech companies that do not meet financial eligibility tests, high growth and innovative companies with weighted voting rights structures, and innovative companies seeking a secondary listing in Hong Kong.\(^\text{73}\) With the friendlier listing rules, familiarity with Chinese firms and convenient time zone for Chinese executives, Hong Kong could be an attractive listing market for the companies in the emerging and innovative sector, especially for the tech startups. The listing reform has attracted large technology firms such as Chinese smartphone maker Xiaomi to list in Hong Kong in 2018.\(^\text{74}\) The broadening of the listing regime will maintain Hong Kong’s competitiveness as an international financial centre.

Anti-money laundering (AML) and counter-terrorist financing (CTF) measures are particularly important to maintain Hong Kong’s reputation as an international financial centre. However, one of the major deficiencies of Hong Kong’s AML and CTF regime is the lack of transparency of beneficial ownership of Hong Kong companies, as identified by a review from the Financial Action Task Force.\(^\text{75}\) Therefore, in order to ensure Hong Kong’s regulatory regime complies with international standards and to combat fraud and money laundering, two amendment ordinances came into effect on 1 March 2018. The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Ordinance 2018 requires trust or company service providers licensees to comply with the statutory customer due diligence and record-keeping requirements.\(^\text{76}\) Another new beneficial ownership rule, the Companies (Amendment) Ordinance 2018 requires companies incorporated in Hong Kong to obtain and maintain up-to-date beneficial ownership information by keeping a Significant Controllers Register.\(^\text{77}\) The ordinances will safeguard Hong Kong’s integrity as an international financial centre and add Hong Kong’s creditability as a safe and competitive place for business.
Driving Innovation and Technology to the Next Level

Innovation and technology is an important economic driver in the future. Nevertheless, Hong Kong is relatively slow in terms of technological growth. According to the Global Innovation Index 2018, Hong Kong’s ranking has dropped from 11th to 14th, while regional competitors such as Singapore, Japan, China and South Korea have all made improvements. The Government is aware of the importance to invest in the future in order to stay competitive and has been taking more efforts recently to catch up other innovative economies. In addition to the HK$10 billion reserved in the 2017-18 Budget, it is announced that HK$50 billion will be allocated to boost the development of Hong Kong’s innovation and technology industry in the 2018-19 Budget.

The development of the Greater Bay Area will create favourable conditions for diversifying Hong Kong’s industries, especially the innovation and technology sector. The central government has announced a number of initiatives which will boost the innovation and technology sector in Hong Kong. They include the setting-up of two laboratories in Science Park which are supported by the Mainland. Funding approval of HK$10 billion has also been obtained from the Legislative Council for establishing two technology research clusters at the Hong Kong Science Park, with one focusing on healthcare technologies and the other on artificial intelligence and robotics technologies. In addition, the Guangzhou Institute of Biomedicine and Health and the Institute of Automation under the Chinese Academy of Sciences will set up branches at the Science Park. China’s Ministry of Science and Technology and Hong Kong’s Innovation and Technology Bureau will also sign a new agreement to foster cross-border cooperation in the area of innovation and technology.

To fully capture the opportunities presented by the Greater Bay Area, Hong Kong has cooperated with Shenzhen to develop the Lok Ma Chau Loop into the Hong Kong-Shenzhen Innovation and Technology Park (HSITP). The infrastructure works of HSITP has commenced in June 2018, with the objective of providing the first batch of land parcels for superstructure development not later than 2021. The Government has set aside HK$20 billion of the HK$50 billion to develop the first phase of the HSITP. The HSITP is conducting Master Planning Study and Business Model and Business Planning Study for the development of the park and is expected to be completed by early 2019. Upon completion of the studies, HSITP can start the next stage of work, such as finalizing the master plan and formulating the operation mechanism. The HSITP could become an innovation and technology centre for the Greater Bay Area. Upon completion, it is expected to promote an integrated allocation of innovative and technological resources and help Mainland enterprises to explore the international market and overseas firms to enter the Mainland market.

In the 2018-19 Budget, Government identified four key areas for development, including artificial intelligence (AI), biotechnology, smart city and FinTech. The world has entered into the fourth Industrial Revolution, an era driven by automation and connectivity, and AI is an important driving force of this. AI is becoming increasingly important in many industries such as finance, marketing, retail and logistics. Hong Kong’s strength in AI is the quality of AI publications contributed by higher education institutions, with Hong Kong being ranked number three worldwide in terms of field-weighted citation impact on AI, according to an analysis of academic publications on AI by Times Higher Education in 2017. Recognizing the strength of Hong Kong in AI, the Innovation and Technology Fund has subsidized 83 AI and robotic projects with over HK$340 million in the past three years. The HKAI lab jointly funded by SenseTime and Alibaba Hong Kong was launched in May 2018 and the Lab has introduced a six-month Accelerator Programme to nurture AI talents and start-ups in Hong Kong by providing funding, AI technologies, network and working space.

Apart from AI, biotechnology is another emerging sector in Hong Kong. Universities in Hong Kong are among the top in world rankings, with four universities ranking the top 10 universities in Asia. It is estimated that the universities in Hong Kong produce about 250 biomedical publications of high impact factor every year. Hong Kong has strength and potential for playing a hub role in biotech as it has the prime prerequisite to solve the challenges faced by biotech companies, which include the singular revenue and cash flow...
challenges due to the long and costly journey to commercialize the biotechnology. As an international financial centre, Hong Kong is well suited to meet the financial needs of biotech companies and with the friendlier listing policy for biotech companies with no revenue, Hong Kong can enable local biotech companies to raise fund through listing and attract biotech companies from overseas and the Mainland to list in Hong Kong.

The Government has published the Smart City Blueprint in 2017. As one of the initiatives to take forward the blueprint, Government has launched an all-in-one transport mobile app in July 2018 for journey planning - “HKeMobility”. It is an integrated mobile app of three existing mobile apps. The new app will enable the public to acquire real-time traffic and transport information such as estimated times of arrival of buses and trams and parking vacancy information. To provide the choice of barrier-free routes for the visually and mobility impaired and elderly, the new app has an enhanced walking route searching feature. Apart from smart mobility, Government has also launched the Faster Payment System in September 2018 which will be an important financial infrastructure to build Hong Kong as a smart city with full connectivity. Opening up government data can lay the foundation needed for technology research. In September 2018, the Office of the Government Chief Information Officer issued guidelines to all government bureaux and departments on the new open data policy and implementation measures, so as to enable progressively open up their data for free use by the public under the “data.gov.hk” portal, and formulate and publish their annual open data plans on their websites every year. The data currently opened up or planned to be opened up shortly by Government cover different areas, including medical and health, transport, education, commerce and economy, environment, leisure and culture, housing, land development and information relating to people's livelihood.

In order to transform Hong Kong into an innovation hub and smart city, mobile networks must be of ultra-high speed and high capacity, reliable and adaptive. The fifth generation (5G) mobile network is planned to launch in 2020. It will run at least 10 times faster than 4G network and could support one million connected devices per square km. Mobile operators are getting prepared to provide 5G service to users when 5G spectrum is officially released in Hong Kong. China Mobile Hong Kong is the first mobile network operator granted with 5G network trial permit and successfully completed an end-to-end 5G network test. It is also conducting outdoor field test and commercial field trials. To reduce the cost and shorten the time for operators to roll out 5G networks, Government has proposed to allocate 5G spectrum for free. With the massive capacity of the network, the development of Internet of Things (IoT), an essence of a smart city can be promoted.

Hong Kong's start-up ecosystem has been growing in recent years, according to a survey by InvestHK, the number of start-ups in Hong Kong has increased by 16% in 2017. Majority of the start-ups focus on research related to innovation technologies such as AI, robotics, IoT, biotech, etc. With this upward trend, Government is dedicated to strengthening the tech start-up ecosystem in Hong Kong and has launched a number of new initiatives. For example, among the HK$50 billion reserved for innovation and technological industry, HK$200 million will be allocated to Cyberport to enhance the support for start-ups. Cyberport will also offer new financial assistance scheme and increase the existing financial assistance under the Cyberport Incubation Programme by 50% to HK$500,000. In order to cultivate the billion-dollar e-sports industry in Hong Kong, Government has earmarked another HK$100 million of the 2018-2019 Budget to Cyberport for nurturing e-sports talent, game development, and renovating the atrium into an e-sports venue for competition, which is expected to complete in March 2019. On the other hand, Government plans to expand the Innovation and Technology Fund (ITF) by injecting HK$10 billion of the HK$50 billion budget into it and adjust the eligibility for recipients of the ITF in order to support start-ups, which includes the removal of the requirement for recipients to have one year of substantive business operation in Hong Kong and expansion of the programme to cover enterprises of all sizes.

Although Government has shown dedication in developing the innovation and technology industry, the lack of talent continues to be a challenge that needs to be overcome. The competition for top-notch tech talent between Hong Kong, Macau and other Mainland cities will be fiercer especially with the development of the Greater Bay Area. In many Mainland
cities, the municipal government has a lot of favourable policies to allow research and entrepreneurship to thrive. For instance, Shenzhen has many policies to support talented entrepreneurs who wish to work or start their own businesses in Shenzhen, such as the “Measures on Improving the Talents Housing System”, which aims to attract high-caliber talents from outside the city by providing housing to them. Zhuhai has also offered housing benefits to talents, either a RMB 6 million housing allowance or a 200-square-meter flat. Those who have worked full-time in Zhuhai for eight years can even obtain the ownership of the flat provided.

To enhance Hong Kong’s competitiveness, Government has rolled out different initiatives to attract and nurture talents. They included the launching of the Technology Talent Scheme in August 2018 to support the admission of tech talent from overseas and the Mainland. The scheme runs on a pilot basis for five years and includes a Postdoctoral Hub programme and a Reindustrialization and Technology Training Programme. The Postdoctoral Hub programme provides funding support to eligible institutions, including recipients of the Innovation and Technology Fund (ITF) and innovation and technology tenants of Hong Kong Science and Technology Parks Corporation and Hong Kong Cyberport Management Company Limited, to hire up to two postdoctoral talents for research and development work. Each talent will receive a monthly allowance of HK$32,000 for up to two years. As for the Reindustrialization and Technology Training Programme, Government will subsidize local companies on a 2:1 matching basis to train their staff in new technologies, especially those related to Industry 4.0. The Government has also shortened the process of working visas with the launch of the Technology Talent Admission Scheme. Hong Kong has to continue to allocate resources to attract, nurture and retain innovative talents as they are essential to transform Hong Kong into an innovation and technology hub.

Nurturing a Diversified and Healthy Environment for Long Term Development of Tourism and Retail Industries

The tourism industry remains as one of the four key industries in Hong Kong. The total contribution of tourism was HK$441.6 billion, 16.7% of GDP in 2017, and is expected to increase by 3.5% p.a. to HK$634.5 billion, 18.9% of GDP in 2028. In 2017, the total contribution of tourism to employment, including jobs indirectly supported by the industry was 14.5% of total employment (i.e. 556,500 jobs). This is expected to increase by 1.1% p.a. to 624,000 jobs in 2028 (i.e. 16.4% of total employment). The number of visitors to Hong Kong continued to climb at a 9.5% growth rate in the total visitor arrivals during January to September 2018 compared to the same period in 2017, with a 5% increase in overnight visitor arrivals and a significant 13.6% growth in same-day visitor arrivals. Visitors from Mainland China continued to be the major and fastest growing source of inbound tourism, amounting to 78% of total visitor arrivals in the first nine months of 2018. During the same period, visitors from Mainland China had seen a 7.7% growth in overnight visitor arrivals and a remarkable 16.3% increase in same-day visitor arrival. Apart from Mainland China, there was also 2.6% growth in the total visitor arrivals for long haul markets, especially for the United States (5.9%), the United Kingdom (4.3%) and Canada (3.1%). While the growth for new markets has slowed down to 0.4% during the first three quarters of 2018, Russia remained as a significant contributor of 13.8% growth as the top new market.

To enhance the competitiveness of the tourism industry in Hong Kong, Government allocated an additional HK$396 million to the tourism industry in the 2018-19 financial year, of which HK$226 million was provided for the Hong Kong Tourism Board (HKTB) to implement the “Development Blueprint for Hong Kong’s Tourism Industry”. The Blueprint has not only set out a clear vision and mission to develop Hong Kong into a world-class premier tourism destination and ensure a balanced, healthy and sustainable development of the industry, but also highlighted four development strategies based on which different tourism initiatives and measures will be formulated.
To consolidate and enhance Hong Kong’s status as a diversified travel destination, Government is actively nurturing the city’s potential for cultural tourism, heritage tourism, green tourism and creative tourism. The HKTB has launched a series of “Hong Kong Neighbourhoods”\(^{121}\) to promote in-depth district tourism to enable visitors to experience Hong Kong’s local life and district characteristics as a unique form of tourist appeal. To kick off the series, the “Old Town Central” promotion was launched in 2017, with the completion of Dr Sun Yat-sen Historical Trail revitalization project in April 2018 as one of the highlights. Also, “Tai Kwun”, situated at the restored Central Police Station Compound, comprising three declared monuments—the former Central Police Station, Central Magistracy and Victoria Prison\(^{122}\), was newly opened in May 2018 to serve as a new centre for heritage and arts\(^{123}\) and a new kind of cultural hub accessible to all.\(^{124}\) Together with the revitalized Police Married Quarters (PMQ), the Central and Western District was repackaged and positioned as a must-visit contemporary hub with a well mix of historical, artistic and culinary elements.

Another district tourism campaign was also launched in Sham Shui Po with the theme of “Every Bit Local”\(^{125}\) in September 2018 to promote its distinctive characteristics to enrich visitors’ experience.\(^{126}\) Apart from introducing various highlights in the local neighbourhood of Sham Shui Po, numerous “Recommended Routes”\(^{127}\) were also promoted for visitors to experience the district according to different themes and tastes of their choice, namely “Historical Discoveries”, “Communal Dinning”, “Walk of life”, “Creative Calling” and “Stars attractions”. A comprehensive “e-Guidebook”\(^{128}\) is also available on the HKTB website, which serves as an illustrative guide for visitors to explore and enjoy more out of the local histories and characteristics. Government will continue to identify suitable local areas for district tourism promotion\(^{129}\) and enhance the tourism appeal through collaboration with the creative industries in staging creative tourism events that feature fashion parades, public art works, comic characters with local originality, and multimedia creative technology.\(^{130}\)

In addition, the Peak Tram has always been an iconic tourism attraction in Hong Kong for more than 130 years. Government had recently granted the second 10-year operating right from 2026 to 2035 to The Peak Tramways Company Ltd. An upgrading plan of over HK$650 million was expected to complete in 2021. By introducing longer carriages and replacing existing tracks, the tram capacity would increase by 75% from 120 passengers to 210 passengers per trip and the waiting time is anticipated to reduce by more than 80%, whereas the covered queuing area with air-conditioning is expected to accommodate up to 1,300 visitors.\(^{131}\) The improvement in ride efficiency and queue conditions for passengers is expected to enhance the attractiveness of the peak tramway as an irreplaceable tourist destination for local as well as overseas visitors.\(^{132}\)

On the other hand, Government aims at enhancing the supporting facilities of key hiking trails and piers with a view to strengthening the development of Hong Kong’s green and eco-tourism.\(^{133}\) Through the “Great Outdoors Hong Kong”\(^{134}\) marketing platform, the HKTB has been promoting the Hong Kong UNESCO Global Geoparks, natural scenery of outlying islands, popular hiking trails and other green attractions to leverage Hong Kong’s unique ecological richness and diversity. In particular, the Hong Kong Wetland Park is a world-class conservation, education and tourism facility which consists of a 60-hectare outdoor wetland reserve, as well as a visitor centre of 10,000 square metres with three exhibition galleries. To further enhance the appeal of the Hong Kong Wetland Park as an eco-tourism attraction, Government plans to upgrade the Park’s facilities to offer better visitors’ experience of the wetland wildlife and habitats.\(^{135}\) In addition, the Agriculture, Fisheries and Conservation Department (AFCD) has also adopted a more interactive approach in promoting nature conversation and eco-tourism by launching a Facebook Page named “Mr. B Nature Classroom”\(^{136}\) where citizens can conveniently receive updates about nature conservation, and register for various exhibitions, seminars, workshops, activities and guided eco-tours open for the public for free. These pioneering and interacting initiatives are expected to raise the awareness of the public towards nature conservation and foster Hong Kong’s status as an eco-tourism destination for local citizens as well as tourists.
In recent years, e-sports have been developing rapidly with tremendous potential in Hong Kong. To promote the development of e-sports, Government allocated HK$100 million to Cyberport in the 2018-19 financial year. The Cyberport Arcade will become a local e-sports and digital entertainment node providing a competition venue for e-sports. Support will also be provided for the e-sports sector in areas such as technological development and talent nurturing. To promote Hong Kong’s appeal as a travel destination for the younger generation, the HKTB launched the first ever three-day e-sports and music festival in Hong Kong in August 2017. Riding on the success, the HKTB continued to organize the second e-sports and music festival on 24-26 August 2018, which had attracted 80,000 visitors, up from 60,000 in 2017 whereas the estimated viewership reached up to 12 million together with the availability of livestreaming. While the video-gaming and e-sports industry has soared in popularity in the United States, South Korea, Mainland China and Taiwan, Hong Kong has been relatively slow to follow suit. Industry leaders believed the city’s high costs had put many investors off nurturing local gamers. Government is urged to allocate more resources in the development of this sector.

In addition to enhancing the tourist attractions and facilities, it is equally important to upgrade the service quality of the tourism industry and encourage them in adopting good trade practices. In 2016, Government allocated HK$10 million setting up the “Pilot Information Technology Development Matching Fund Scheme for Travel Agents”, under which small- and medium-sized travel agents would be subsidized through the Travel Industry Council (TIC) of Hong Kong on a matching basis to make use of the information technology to enhance their competitiveness in the local and overseas market. In view of the positive feedback of the trade, Government has further extended an additional funding of HK$30 million in the 2018-19 financial year to TIC to continue running and enhancing the scheme. The extra funding was well received by the trade with a view to increasing the public’s confidence in the industry.

To strengthen monitoring of trade regulation for safeguarding the rights and interests of visitors, Government has submitted to the Legislative Council the “Travel Industry Bill” and recommended the establishment of the Travel Industry Authority. The suggestion was welcomed by the Consumer Council, whom had received about 2,000 to 3,000 complaints annually from tourists during the years 2012-2016, among which over 90% of the complaints involved inbound tourists to Hong Kong. The Consumer Council believed the establishment of an independent statutory body would be effective in reforming and regulating the overall operation of the tourism industry. Nevertheless, the proposed Bill has also aroused much concern from the industry. Under the proposed Bill, violations of the regulations would become a criminal offence. Moreover, a person is only allowed to be license holder for one travel agency, which is different from the current practice for a person being license holder for multiple agencies. Trade representatives worried that these new regulations would increase the difficulties in their operation. There were also concerns from the industry on the additional financial burden with the licensing fee to be paid to the proposed Travel Industry Authority. The interests and opinions of different stakeholders should be well balanced for the long term development of the travel industry. In view of the overall increase in the number of visitors and positive development in the tourism sector, the performance of the retail industry has also recorded a steady recovery in 2018. According to the latest statistics in retail sales released by the Census and Statistics Department, the value of total retail sales in the first nine months of 2018 was estimated to have increased by 11.1% over the same period in 2017. In comparison with the same period in 2017, there was an overall increase in the value index of sales in 2018. The value index in the category of “jewellery, watches and clocks, and valuable gifts” increased by 20.1%, followed by “other consumer goods” (13.9%), “department stores” (11.9%), “fuels” (9.9%), “consumer durable goods” (9.9%), and “clothing, footwear and allied products” (8.9%).

To sustain the long term healthy growth of retail industry, it is of vital importance to protect the consumer interests and enhance consumer confidence. In recent years, there has been increasing number of complaints from consumers about being pressurized or forced into making purchases unwillingly by salespersons of certain trades who deployed aggressive sales tactics. In 2017 alone, 1,148 such complaints were received about beauty parlours and 554 complaints were about recreation or health clubs. To tackle the problem of pressurized
purchases, Government is studying the feasibility and scope of a proposed mandatory cooling off period legislation under which a seven-day cooling-off period was suggested to apply to five types of contracts, including fitness, beauty and timeshare firms whereas deals worth more than HK$500 would be covered. The period applies to beauty and fitness contracts that run at least six months or involve prepayment, while that for timeshares is more than a year.149 The proposal was well received, and would help to rebuild customer confidence without causing much impact to the majority of operators who were currently doing businesses in a lawful way. However, there were opinions from the industries that the whole industry would suffer even though the problem was currently caused by a minority of “blacksheeps” only.150 Apart from the higher operation costs and anticipated increase in disputes between frontline staff and customers151, the industries opposed the proposal as it put responsibility solely on the operators and it was an unfair treatment in giving consumers the power to terminate a contract and entitle to refund unconditionally, thus violating the spirit of a contract. To balance the views from different stakeholders, the proposal was expected to be put forward for public consultation in 2019.152

On the other hand, a register shielding those taking part from commercial electronic messages via fax, text message and pre-recorded calls had been operated free of charge by the Office of the Communications Authority153 since 2008. To further strengthen regulations over nuisances and fraud cases caused by “cold-callers”, Government had completed a public consultation on the proposal to establish a statutory “Do-not-call Register” for those who do not wish to receive person-to-person telemarketing calls by registering their phone numbers.154 Out of over 3,700 written responses received during the public consultation from May to July 2017, 89% supported adopting a legislative approach and 86% were in favour of the “Do-not-call Register”.155 However, the scope for person-to-person calls had to be clearly and accurately defined so that important phone calls from hospitals and other public service departments would not be blocked even if the regulations were in place. There were concerns from the industry about the risk of violating the new regulations by making “warm calls” to clients they already knew.156 Moreover, industry worried that the new legislation would discourage and eliminate spaces for start-up entrepreneurship to grow in Hong Kong.157 It was hoped that Government would take into account opinions from different stakeholders to strike a balance between maintaining a healthy business environment and protecting consumers’ interests.

With a well-developed electronic payment ecosystem in place in Hong Kong, the e-commerce technology and environment has further matured in recent years. Electronic payment now accounts for about 60% of total private consumption expenditure.158 As one of the seven initiatives to introduce a range of financial technologies in the new era of smart banking of The Hong Kong Monetary Authority, the “Faster Payment System” (FPS) was launched by The Hong Kong Monetary Authority in September 2018 across 20 banks and eight e-payment operators.159 The FPS will provide full connectivity between banks and stored value facility (SVF) operator where participating banks and SVF operators can provide real-time credit transfer and real-time direct debit services to facilitate payments between merchants and customers, as well as peer-to-peer fund transfers160 through the use of mobile phone numbers or email addresses for payments in Hong Kong dollar and renminbi anytime and anywhere.161 While the development of QR code payment is still at its early stage in Hong Kong, The Hong Kong Monetary Authority will continue to work with the relevant stakeholders in promoting a wider adoption of QR code payment on a level playing ground, so that consumers can enjoy the benefits and convenience brought about by the advancement in financial technologies162.

The latest development in e-commerce will continue to change the retail ecosystem for different industries in Hong Kong in the long run. In particular, businesses are advised to pay closer attention to the development of new forms of e-commerce such as m-commerce163 (mobile e-commerce), s-commerce164 (social media e-commerce) and O2O e-commerce165 (online to offline e-commerce) which would continue to greatly impact consumers’ buying behaviour. These new forms of e-commerce were facilitated and reinforced by the high mobile phone ownership and broadband network penetration rate in Hong Kong. As of April 2018, the mobile subscriber penetration rate in Hong Kong reached 250.8%,166 accounting to over 18 million mobile subscribers. Also, as of July 2018, the household broadband penetration rate has climbed to 92.5% while there are 56,761
public Wi-Fi access points across the city by October 2018.\textsuperscript{167} It is also remarkable that in contrast with just a few years ago, e-commerce is no longer an exclusive shopping habit for the younger generations. According to “Nielsen’s Hong Kong E-commerce Study 2017”, the silver-aged group (50-64 years old) also showed a more active use of online shopping via e-commerce channels, with 67\% of them saying they had shopped online in the past 12 months.\textsuperscript{168} However, apart from the convenience benefited from online shopping, some customers still have hesitation over the delivery logistics. In this regard, leading E-tailers and couriers such as Amazon, Alibaba and SF Express have introduced new distribution and collection methods by automatically generating a unique, one-time use code so that a package can be collected by the customers at designated lockers or cabinets at their convenience.\textsuperscript{169} These improvements in e-payment methods and logistics options have contributed to the development of O2O e-commerce where customers are offered more purchase opportunities across the online and offline platforms during the process of acquiring product information and making the final payment.\textsuperscript{170}

**Reinforcing Hong Kong’s Position as a Trading and Logistics Hub**

In terms of both value added and number of employment, trading and logistics industry is the largest among the four main economic pillars, namely financial services industry, tourism industry, trading and logistics industry, and professional services and other producer services industry, in Hong Kong. Trading and logistics accounted for 22 \% of the city’s GDP and provided some 730,700 jobs in 2016, whereas logistics industry alone contributed 3.2 \% of Hong Kong’s GDP and 174,800 jobs.\textsuperscript{171}

Hong Kong International Airport (HKIA) has been ranked as the world’s busiest airport for international cargo every year since 2006. In 2017, its total throughput, including airmail, exceeded the mark of 5 million tonnes for the first time.\textsuperscript{172} During the fiscal year ended 31 March 2018, the airport welcomed 73.6 million passengers and handled 423,390 flight movements, registering year-on-year increases of 4.5 \% and 3.2 \%, respectively.\textsuperscript{173}

When the airport moved from Kai Tak to Chek Lap Kok in July 1998, the network comprised only 120 destinations and 60 airlines. In 2018, more than 100 airlines connect Hong Kong to over 220 destinations across the globe. Passenger and cargo volumes have more than doubled. This robust growth has made HKIA the world’s busiest cargo airport for eight consecutive years and the world’s third-busiest international passenger airport.\textsuperscript{174}

Since the construction of the three-runway system commenced in August 2016, the project is on track to meet the target commissioning by the end of 2024 and the budget of HK$141.5 billion.\textsuperscript{175} However, HKIA is considering to speed up key aspects of its expansion to increase flights and use three runways before the project’s 2024 completion date, as the northern runway will be closed in 2022. The plan is to start using the new third runway before the existing runway closed, so flights would not be affected, but tunnelling work under the current northern take-off and landing strip could be sped up to shorten the 24-month closure.\textsuperscript{176}

As HKIA continues to experience growing demand, a series of enhancement projects are taken place to ensure the airport has the capacity to meet demands in the short- and medium-term until the three-runway system commence operation. At Terminal 1, an expansion project is adding 48 new check-in counters and two new baggage reclaim carousels. The Arrivals Hall is also enlarged to provide more space. On the airside, the East Hall will become a kid-friendly zone with equipped with video games and playing areas. A new open-air garden will also be constructed. At the same time, to reduce travel time between T1 and the North Satellite Concourse, a 200-metre-long, air-conditioned bridge with observation deck and food and beverage outlets is under construction.\textsuperscript{177}

Since 2017, HKIA has collaborated with the Immigration Department to introduce facial recognition technology that strengthened security and expedited immigration clearance. HKIA is exploring the use of a single travel token for an increased efficiency. With this system, each passenger’s biometric and travel information is captured at their first point of identity verification and used to create a digital token to identify the passenger at checkpoints.
throughout the airport. In September 2018, four automated gates have been installed and are currently in operation in the Terminal 1. The entire process of proceeding through security will only take 20 seconds to complete. It is expected that a total of 44 gates will be in use by the first quarter of 2019. The smart initiative will speed up and increase the accuracy of the document checking process, leading to an enhanced experience for the passengers.

On the other hand, HKIA has also been working on the Skycity project. Comprising hotels, offices, retail, dining and entertainment facilities, the 25-hectare Skycity will be the largest commercial development in Hong Kong. It will become a new tourism and business hub on the airport island. Construction of the first new hotel has already commenced and is scheduled to be launched in the year 2020 to 2021. The entire project is expected to be opened in phases from 2023 to 2027. HKIA expected that the Skycity will capture broad opportunities in tourism and business, while also providing a dynamic lifestyle and family entertainment hub for Hong Kong residents and visitors alike.

In addition to the three-runway system, several major infrastructure projects have been launched in Hong Kong in 2018, including the Express Rail Link (XRL) and the Hong Kong-Zhuhai-Macao Bridge (HZMB). With the construction cost of HK$84.4 billion and over eight years of construction, the XRL is finally launched on 23 September 2018 and provides direct services to 44 destinations. The Hong Kong Section of the XRL spans 26 km and connects with the Mainland Section and the 25,000 km-long national high speed rail network. Running at 200km/h in the Hong Kong Section and up to 350km/h in the Mainland Section, the XRL is the fastest cross-boundary land transport in Hong Kong.

The Hong Kong Section of the XRL links up the three rapidly developing leading cities in the Greater Bay Area, namely Guangzhou, Shenzhen and Hong Kong. In addition to boosting the high speed passenger transport network in the bay area and promoting economic, social and cultural exchanges, it also connects Hong Kong with the Capital Economic Circle and Yangtze River Delta Region through the Beijing-Guangzhou Passenger Line and the Hangzhou-Fuzhou-Shenzhen Passenger Line. It would strengthen synergy among the regions and create more development opportunities.

In November 2018, two months after launch of the XRL, MTR figures showed that the revenues and number of passengers fell short of estimates. The daily average patronage was 50,000, about 38% below the estimation of 80,100. With this projection, Government profit target for the year of HK$199 million before tax and interest, and estimated revenue of HK$671 million may not be reached.

However, a new daily patronage record of 80,020 passengers has been set on 5 October 2018, during the Golden Week in China. Although the figure was still slightly below Government’s prediction of 80,100 passengers a day, Government believes that it would take time for the public to get used to the convenience of this new piece of cross-border infrastructure. The tourism sector in the legislature was also optimistic that the numbers would pick up after March 2019. Moreover, it is expected that the XRL would be more attractive to visitors in the future after the launch of cultural facilities in the West Kowloon Cultural District, including concert halls, performance venues, and facilities showcasing visual art masterpieces as well as Chinese national treasures. Government estimates the daily average patronage is expected to rise to 95,000 in 2021.

Another infrastructure project which was launched this year, the HZMB, is the longest sea-crossing bridge in the world. It has been named as China’s greatest technological advancement of 2018 by top scientists and engineers in China. The mega bridge is 55km long, comprising the 12km Hong Kong Link Road, 29.6km Main Bridge and 13.4km Zhuhai Link Road. It connects the three major cities on the Pearl River Delta, namely Hong Kong, Macau, and Zhuhai. Operating 24 hours a day, it will take only 40 minutes to travel the distance of approximately 42km from Hong Kong Port to Zhuhai Port and Macao Port. After nine years of construction and investment of HK$120 billion, the bridge is opened on 24 October 2018.
It is believed that the opening of the HZMB will provide impetus to Hong Kong's development, boosting both passenger and freight traffic. As the Hong Kong Port is adjacent to the Hong Kong International Airport, the HZMB will make Lantau a “Double Gateway” to the world and other Guangdong-Hong Kong-Macao Greater Bay Area cities. The bridge is expected to help strengthen trade, finance, logistics and tourism between the three cities in the western Pearl River Delta Region.

The two new cross-border infrastructure projects helped fuel a record 2.97 million Mainland visitors on day trips into Hong Kong in November 2018. According to the figures from Hong Kong Tourism Board, the number of Mainland day trippers in the city surged 40% and accounted for 87% of total same-day arrivals in November 2018, compared to the same period in 2017. The numbers coincided with the opening of the XRL and the HZMB, which proves the influences of these new infrastructure in boosting economic development and tourism in Hong Kong.

The maritime sector is vitally important in supporting Hong Kong's status as the world's seventh largest trading entity. It is a major pillar of Hong Kong's trading and logistics industry, with more than 90% of freight volume to and from Hong Kong still transported by water at present. The Mainland is the biggest source of and destination for Hong Kong's transhipment cargo. Hong Kong's port was ranked the fifth busiest container port in the world in 2017. Furthermore, Hong Kong overtook London's spot for the first time in five years, becoming the second leading maritime centre in the world. In 2017, 2,545 vessels were listed on the Hong Kong Shipping Register, boasting a total of 114 million gross tonnes, making Hong Kong the fourth largest shipping register in the world, behind Panama, Liberia and the Marshall Islands.

However, some experts fear that shipping is being dismissed as an old-fashioned legacy industry and is in danger of losing out to major competitors in the region such as Singapore. The Marine Department reported that, as of 2017, Hong Kong had entered into double-taxation treaties with 37 major trading partners, whereas Singapore's list has more than 90 countries. In order to maintain and enhance the competitive advantages of the maritime cluster for the sustainable growth of the shipping industry in Hong Kong, the Financial Services Development Council has recommended to raise Hong Kong's global profile and attract maritime players to set up and conduct business in Hong Kong.

In the 2018 Policy Address, Government has pledged to implement several measures to support and enhance the development of high value-added maritime services. Tax measures will be used to foster ship leasing business and tax reliefs will be provided to promote the development of marine insurance and the underwriting of specialty risks in Hong Kong. Government will explore streamlining regulation to facilitate the operation of protection and indemnity club for shipowners, and offer necessary measures in support of provision of quality services for the global maritime industry. Regional desks will also be set up to provide support to shipowners at the ports. Furthermore, HK$200 million will be injected into the Maritime and Aviation Training Fund to nurture talents. To explore new opportunities, it is necessary to expand the Comprehensive Avoidance of Double Taxation Agreements (CTDA) network and work with the trades to jointly promote the maritime and port services in Hong Kong. In addition to CTDAs, Government will actively seek to sign Free Trade Agreement (FTA) and Investment Promotion and Protection Agreement with other economies, including those along the Belt and Road, to fortify Hong Kong's position as an international trade and investment hub. This action would help Hong Kong businesses and investors open up new markets, protect their overseas investments and attract foreign investors to Hong Kong.

Promoting Sports, Cultural and Creative Industries

In recent years, Hong Kong athletes have achieved remarkable results in various sports competitions. In the 2018 Asian Games held in Indonesia, Hong Kong athletes returned home with the best-ever haul of 46 medals, including 8 gold, 18 silver and 20 bronze medals. In the wider community, there has also been an increasing number of people participating in major sports events and community sports activities. The Government
continues to allocate resources to promote sports in the community, support elite sports and
develop Hong Kong into a hub for major international sports events. In this regard, HK$1
billion was injected into the sports portion of the Arts and Sport Development Fund to
support sports organizations in training athletes and hosting competitions. Another
HK$100 million was also earmarked for the launch of a five-year District Sports
Programmes Funding Scheme to encourage wider community participation in sports.
Furthermore, a total of HK$6 billion was injected into the Elite Athletes Development Fund
as of 2018 to provide greater support for elite athletes. Since 2004, the Home Affairs
Bureau has introduced the “M” Mark System to support national sports associations to host
major international sports events through the provision of matching fund. In 2017, 13
major sports events were supported by the “M” Mark System with a total of around HK$16
million cash grant. To further encourage the commercial sponsorship in large-scale sports
events, HK$500 million was allocated for a new Major Sports Events Matching Grant
Scheme in 2018 in the hope of providing Hong Kong’s athletes with more opportunities to
compete in high-level competitions on their home ground.

More importantly, with the three-pronged objectives to “promote community sports”,
“attract major events” and “support elite athletes”, Government is committed to take a
significant step forward in investing in sports infrastructure by introducing the Kai Tak
Sports Park (TKSP), which is strategically positioned as “A Sports Park for the people of
Hong Kong” that meets the diversified sports needs of the general public, amateur as well
as professional athletes. TKSP will occupy 28 hectares of land and is about 9 hectares
larger than the Victoria Park. By promoting “Sports for All” through a wide range of sports
facilities; hosting major international competitions in Hong Kong; supporting Hong Kong
athletes by providing more opportunities to compete at a home venue; and meeting the
training and competition needs of student athletes with quality sports facilities, TKSP is
anticipated as a milestone in Government’s contribution to Hong Kong’s sports
development. It is expected that the construction works will be completed between 2022
and 2023. Hong Kong has often been criticized for lagging behind its Asian rivals in
terms of its events portfolio. Based on a report compiled by KPMG, Hong Kong scored
only 1.30 out of 20 in four key areas considered important in attracting elite events –
infrasture, people and services, security and event support. Upon completion of the
TKSP, it is hoped that it will put the city in a better position to vie for more elite events.

The cultural and creative industries (CCIs) are important economic drivers for Hong Kong,
which help to increase the innovation capacity of the economy and can be a powerhouse for
sustaining future economic growth. Hong Kong has developed a leading edge in key areas
of creative industries like film, television, music, design, architecture, advertising, digital
entertainment, and publishing and printing, and still have immense potential for
development. In 2016, Hong Kong has around 41,300 CCI-related establishments and
the number of practitioners has risen from 191,260 in 2008 to 213,400 in 2017, accounting
for about 5.6% of total labour force in Hong Kong. According to the latest statistics, the
value added of CCIs continued to increase and stood at about HK$112 billion in 2017,
representing around 4.4% of Hong Kong’s GDP.

With a vision to develop Hong Kong into an international cultural and design metropolis,
Government has been placing emphasis on the development of performance venues and
museums in recent years. In particular, the West Kowloon Cultural District (WKCD) is
anticipated as one of the world’s largest cultural quarters which blends art, education and
public space. The Xiqu Centre, designed to be a world-class platform for the conservation,
promotion and development of Cantonese opera and other genres of xiqu (Chinese
traditional theatre), will be the first landmark to open in WKCD on 20 January 2019. On
the other hand, the topping out ceremony for the M+ building, another signature of WKCD,
has recently been held on 30 November 2018. With a gross floor area of 65,000 square
metres, M+ will be one of the largest museums of modern and contemporary visual culture
in the world, focusing on 20th - and 21st - century design and architecture, moving image, and
visual art. Also, the construction for the Hong Kong Palace Museum (HKPM) had
commenced in May 2018. Set to open in 2022, the HKPM will be a museum with a focus
on Chinese art and culture, showcasing an exquisite collections of paintings, calligraphy,
ceramics, bronze and jade items. The main construction works for the Lyric Theatre.
Complex, designed to house an extensive range of theatre and dance performances, had commenced in April 2018, and is expected to complete in the coming few years.

To strengthen collaboration with local and overseas institutions and fully utilize the potential of WKCD, cooperation agreements were signed between the West Kowloon Cultural District Authority (WKCD Authority) and Shanghai West Bund, SMG Performing Arts Group, and Power Station of Art in August 2018 to further expand its already extensive arts and culture networks within the region. In September 2018, the WKCD Authority also signed a five-year Memorandum of Understanding (MOU) with The Hong Kong Academy for Performing Arts (HKAPA) to strengthen strategic collaboration. Under the MOU, WKCD Authority and HKAPA will join forces across a broad range of areas including performances, lectures and talks, workshops, seminars, co-productions, festivals, community engagement projects and professional development initiatives, covering all forms of the performing arts, film and television, as well as production and technical arts.

Apart from the signature project of WKCD, Government also aims at continuously upgrading Hong Kong’s cultural hardware, and has set aside HK$20 billion for the improvement and development of cultural facilities for the 2018-19 financial year.

Government has been urged by small- and medium-sized art groups to provide a new cross-district performance venue to serve the growing demands for local arts and cultural activities. In response to the demand, the proposed New Territories East Cultural Centre is located in Fanling with an area of 17,740 m² and aims at providing vibrant cultural facilities and services including an auditorium of 1,400 seats, a theatre of 700 seats, a multi-purpose studio of 180 seats, exhibition space and other ancillary facilities.

On the other hand, to enhance the Leisure and Cultural Services Department (LCSD)’s capacity and efficiency in managing museum collections, resources have been allocated to develop the Heritage Conservation and Resource Centre (HCRC) in Tin Shui Wai. To date, LCSD manages 17 museums and heritage centres in the art, history and science streams with a total collection of over 2.3 million items. Due to insufficient storage capacities, the collections have to be deposited at various off-site storages and temporary sites. The scattered storage of museum collections at different off-site premises has created preservation and management problems. The proposed HCRC at an approximate gross floor area of 19,500 m², will be a dedicated storage and conservation facility for preserving the collections pertaining to all public museums under LCSD, the Art Promotion Office and the Antiquities and Monuments Office. It will enhance the standards and efficiency of preserving museum collections. Apart from its conservation function, the proposed HCRC will also offer visitors a new experience by providing facilities for education, exhibition and scholarly activities, such as visual art displays, thematic exhibitions, behind-the-scenes conservation activities and an array of educational and extension programmes.

Other projects to be rolled out in the coming decade include the expansion of the Hong Kong Science Museum, Hong Kong Museum of History and Hong Kong City Hall, as well as the renovation of the Hong Kong Cultural Centre. Government has also allocated HK$500 million to LCSD for the acquisition of museum collections and holding exhibitions.

To support local arts groups and artists, an additional recurrent provision of HK$55 million was provided to support the nine major performing arts groups as well as small and medium arts groups funded by the Hong Kong Arts Development Council (HKADC) starting from the 2018-19 financial year. The Government also injected an additional HK$500 million into the “Art Development Matching Grants Pilot Scheme” and is considering a widened matching parameter to encourage donations from the business and private sectors in support of the development of arts groups. HKADC also announced a raise of the matching ratio from 1:1 to 1:1.5 to successful Matching Fund Scheme (MFS) recipients to encourage corporate sponsorship and private philanthropy in supporting arts development of Hong Kong.

As announced in 2018 Policy Address, Government has injected HK$1 billion into the CreateSmart Initiative (CSI) to further promote the development of creative industries, especially nurturing young talent, developing new markets and enhancing the community’s...
understanding of creativity and design thinking. One of the Government’s initiatives is to make full use of the traditional base for apparel and fabrics in Sham Shui Po District to develop Hong Kong’s design and fashion sectors, with a view to driving the district’s local economy and promoting its unique charm for local tourism at the same time. For example, the Hong Kong Design Centre (HKDC) recently held the “Fascination Street” event in Cheung Yee Street, Sham Shui Po on 1 December 2018 to parade fashion, music and stage design, injecting new creative vibe to the district and engaging participation from wider visitor and the public. Furthermore, in collaboration with the Urban Renewal Authority and the HKDC, Government has secured space in a redevelopment project in Sham Shui Po for establishing a Design and Fashion Project that aims to nurture young designers and support local economic growth through developing district tourism with the Hong Kong Tourism Board. The construction works for the project will soon commence and are expected to be completed in 2023-24. Apart from the vibrancy brought by the CCI industries, the CSI has also generated other intangible benefits such as an enhanced international profile and recognition of Hong Kong as a city of creativity and design. For example, the latest Business of Design Week, curated by the HKDC which drew more than 150,000 participants in 2017, has become an international iconic event on the design profession and promoted Hong Kong’s image as a city of design excellenc

To support development in the local film industry, Government has been working closely with the industry players and stakeholders. Following the Chief Executive’s announcement in October 2018, a one-off funding of HK$1 billion has been injected into the Film Development Fund to support initiatives that empower the industry and unlock its potential to grow. The First Feature Film Initiative, designed to nurture local film talents, will recognize more winning projects and award bigger sponsorships. More comprehensive nurturing and training programmes for various film disciplines will also be provided. Targeting support efforts were also introduced to address the shortage of local scriptwriting and script production, with a view to grooming more local scriptwriters for the long-term growth of the film industry. To encourage local film production, the scope of the Film Development Fund will be expanded to cover mid-budget films. Government’s investment ceiling will also be raised to enhance Hong Kong films’ competitiveness in the local and overseas markets. The industry is also encouraged to utilize Hong Kong’s facilities and talent for post-product services. To help Hong Kong films appeal to a wider market, Government pledged to increase efforts into promoting the brand of “Hong Kong Films” through film festivals and other publicity activities in the Mainland and overseas markets. At the same time, it is hoped that a platform could be established for film financing to match investors and filmmakers. Last but not the least, it is important to build audience and cultivate cinema-going habits among young people and students. Plans to seek support from relevant Central authorities in facilitating Mainland-Hong Kong co-production and entry of Hong Kong productions into the Mainland market are also being rolled out. As at end of August 2018, a total of 54 applications for film production financing, 11 applications for film production grants and 197 other film-related projects have been approved (including applications approved but subsequently withdrawn by respective applicants), involving a total investment of HK$524 million from the Film Development Fund.

2. SOCIAL FACTORS

Nurturing Talents for the Future

Talent is the most important asset for Hong Kong’s continuous development, and education is the key to nurturing talent. Upon taking office, the current-term Government has pledged to increase recurrent expenditure on education by $5 billion. In the 2018-19 Budget, Government proposed to commit another $2 billion, bringing the city’s recurrent expenditure on education up by a total of HK$7 billion. It is estimated that Government would spend a total of HK$113.7 billion on education in the 2018/19 financial year, an increase of 28.4% from last year’s figure of HK$88.5 billion. Representing 20.4% of the total government expenditure in 2018-19, education remains the largest recurrent expenditure item among all policy areas.
The growing emphasis on STEM (science, technology, engineering and mathematics) education has become a worldwide trend. In the 2015/16 Policy Address, Government has pledged to renew and enrich the curricula of Science, Technology and Mathematics for primary and secondary schools. Efforts have been put to enhance the training of teachers and to promote STEM education. Perusal and study of STEM-related subjects are being increasingly encouraged. To enable schools to build on their existing practice, kick-start new school-based initiatives on STEM education and further enrich their STEM-related learning activities, the Education Bureau has disbursed a one-off grant of HK$100,000 to each primary school in 2016 and HK$200,000 to each secondary school in 2017. In October 2017, the STEM Education Centre has been set up at the Arts & Technology Education Centre to provide better support on STEM education to primary and secondary school teachers and students. The centre offers advanced equipment and tools for teachers to conduct STEM lessons, and for students to work on related projects. It is also equipped with advanced facilities such as 3D printers to support hands-on learning activities.

In a recent online survey conducted by Amgen, one of the world’s largest independent biotech companies, it was found that although 97% of pupils said they enjoyed STEM subjects, only 54% were happy with what they got out of their schools. Another survey conducted by the Federation of Education Workers which has polled 426 schools revealed that 83% of Hong Kong teachers found the STEM training and support they received insufficient, 82% considered the current teaching infrastructure inadequate, and 71% lamented the lack of teaching materials. It is clear that more support from Government is needed.

Moving on to post-secondary education, a drop in number of students has been observed. According to the statistics of the Education Bureau, the number of students receiving secondary education has dropped from 418,787 in 2012-13 to 330,804 in 2017-18, and the number of secondary school graduates is expected to drop from 57,000 in 2016 to 43,000 in 2022.

On the other hand, public and private programmes including Bachelor’s degrees, sub-degrees and vocational courses offer a total of more than 70,000 places for secondary school leavers. The eight universities funded by the University Grants Committee in Hong Kong offer a total of 15,000 publicly funded first-year-first-degree places, 5,000 senior year undergraduate places, and 10,000 sub-degree places, as well as another 20,000 self-financing sub-degree places. With more than 30 institutions offering self-financing post-secondary programmes, the number of self-financing bachelor’s degree, associate degree or higher diploma programmes has also gone up significantly.

In view of the oversupply in post-secondary programme places, a Task Force on Review of Self-financing Post-secondary Education has been set up in October 2017 to review the future development of sub-degree programmes. A consultation document has also been released in June 2018 to solicit public opinion. The final review report was published in late December 2018, in which the Task Force made a total of 13 recommendations to the Government, including, among others, the need to set a clear policy on the development of self-financing post-secondary education; more sharply differentiating the positioning of associate degree and higher diploma qualifications; strengthening support for self-financing post-secondary institutions and students; and forging a reformed and unified regulatory framework. Meanwhile, the Federation for Self-financing Tertiary Education has also suggested Government allow more students from Greater China to enrol in self-financing programmes and to give these institutions more research funding.

Although there are less secondary school graduates and more post-secondary programmes being offered, not all students choose to continue their studies after graduation. According to a Secondary 6 Students’ Pathway Survey by the Education Bureau in 2016, 20% of the students decided not to pursue full-time study. In order to increase the opportunities for secondary school graduates to further their education, in 2017-18, Government launched a HK$30,000 non-means-tested subsidy for eligible students to pursue undergraduate programmes. The subsidized places have also been increased from 1,000 to 3,000 per cohort under the Study Subsidy Scheme for Designated Professions/Sectors (SSSDP). In
the 2017-18 academic year, about 23,000 students benefited from the above two measures. This has enabled the provision of subsidized tertiary education for all students who meet the general entrance requirement in the Hong Kong Diploma of Secondary Education Examination. In 2018-19, the subsidy has been further increased to HK$30,800.264 Furthermore, Government has announced in the 2018 Policy Address to support students enrolled in self-financing sub-degree programmes. Starting from the 2019-20 academic year, about 2,000 students per cohort will be subsidized to undertake designated self-financing sub-degree programmes through the SSSDP.265 Current students of the designated programmes will also receive the subsidy. It is expected that about 4,000 students will benefit in each academic year. This initiative will incur an additional recurrent expenditure of HK$120 million each year.

However, some sub-degree students were dissatisfied with Government’s limited financial support as only HK$120 million out of the additional HK$8.3 billion education spending are allocated to sub-degree courses, while two-thirds of all sub-degrees offered in Hong Kong remain unsubsidized.266 At the same time, there were also doubts on whether sub-degree programmes should continue at all. A study by think tank New Century Forum showed that sub-degrees offered graduates very limited advantage over those secondary school graduates in the labour market, with the median salary of the former being just 3% higher than the latter.267

An alternative pathway that secondary school graduates can consider is vocational and professional education and training (VPET). The Task Force on Promotion of Vocational and Professional Education and Training was established in April 2018 to evaluate the implementation progress of the recommendations made by the Task Force on Promotion of Vocational Education in 2015. It will advise on how VPET can be better promoted in the career and life planning curricula in secondary schools to cater for students' diverse abilities and interests, and how to foster closer business-school collaboration through the Business-School Partnership Programme to meet the manpower needs of Hong Kong.268 It is expected to submit its recommendations in 2019.269

Currently, Government has been actively implementing various VPET initiatives, such as provision of grant subsidies to secondary schools to cover Applied Learning course fees, Pilot Training and Support Scheme for specific industries with keen demand for labours.270 Government has also been working with the Vocational Training Council (VTC) on the provision of industrial attachment opportunities. Every year, 1,200 training places are offered to trainees under the “Earn & Learn” model designed to help a number of industries develop young talents with specialized skills. Furthermore, to encourage working adults in designated industries to pursue higher academic qualifications, Government will continue to provide tuition fee subsidy for three years to a total of 5,600 students admitted to designated professional part-time programmes offered by the VTC. Both schemes will enhance the employability of young people and working adults, and attract and retain talents for the relevant industries.271

Despite Government's on-going effort in promoting VPET, a survey done by the Bauhinia Foundation Research Centre in 2017 revealed that four in five Hongkongers view vocational education and training as being inferior to university education.272 It is necessary to change the stereotype among parents and educators that vocational trainings are for less-talented students and offer limited career prospects.

The development of young people should be holistic and not only limited to academic development. Government has been working actively on youth development to address young people's concerns about education, career prospect and home ownership through encouraging their participation in politics as well as public policy discussion and debate.273

The Youth Development Commission (YDC) has been set up since April 2018 in order to assist young people in selecting suitable study pathways; facilitate young people’s career development and enhance their upward mobility; and strengthen communication channels with young people.274 In the 2018-19 Budget, HK$1 billion has been allocated to support the work of YDC.275 YDC offers different types of youth development programmes to provide opportunities for young people to showcase their talents, sharpen their competitive
edges and leadership qualities, and to broaden their horizons. Currently, an average of over 70,000 Hong Kong young people participate in exchange and internship programmes that are organized, funded or coordinated by Government in the Mainland and overseas every year.276

In summer 2018, YDC launched a Pilot Scheme on Corporate Summer Internship in the Mainland and Overseas in collaboration with major enterprises to provide internship placements for Hong Kong young people. The pilot scheme aims at nurturing young talents in Hong Kong with a positive outlook on life, a commitment to serve the society, a sense of national identity, a love for Hong Kong and an international perspective.277 The 16 major enterprises participating in the pilot scheme will provide a total of around 230 internship places in different provinces and cities in the Mainland and in seven overseas countries such as Singapore, Thailand, Australia and the United Kingdom. The internship places cover a wide range of industries including financial services, real estate, construction and public utilities.278 The scheme will be further expanded to different places next year to provide more internship opportunities.279 It is expected that participants would have an edge in securing a job after graduation.280

Young people nowadays are provided with more room to unleash their potential and entrepreneurship has become popular among them. It is believed that more young people prefer to pursue entrepreneurship rather than climbing cooperate ladders.281 The Youth Development Fund was set up in 2016 to assist young people in starting their own business as well as to support innovative youth development projects.282 Around 190 young entrepreneurs have received subsidies in the first round of applications and are now developing their businesses.283

In addition to the support for young people in career development and entrepreneurship, Government also attaches great emphasis on communicating with young people. In July and August 2018, the job shadowing programme “Be a Government Official for a Day” has been launched.284 Over 30 selected senior secondary school students were invited to shadow the three Secretaries and 13 Directors of Bureau of Government for a day during the summer holiday to gain hands-on experience of their work and a better understanding of Government’s operation. The programme provided a direct channel for senior government officials to communicate and exchange views with young people.285 However, with the small number of places offered among over 110,000 eligible students, some people were sceptical about the effectiveness of the programme.286

To scout for talent and encourage the participation of young people in policy discussion and debate, the Member Self-recommendation Scheme for Youth has been introduced since 2017.287 From 2018 onwards, two rounds of recruitments will be held every year, while the first one was launched in June 2018. It covers ten committees relating to a wide spectrum of policy areas, including land development, transport, education, environmental protection, social welfare, sports, and home affairs. More than 1,500 applications were received.288 The scheme will increase the overall level of youth participation on Government boards and committees from 8.6% to 15%.289 Through this scheme, young people can gain experience in public administration and their voices can be heard directly at the decision making levels of the Government.290

Despite Government’s continuous effort on nurturing and connecting with young people, according to a study on “Nurturing Talents for the Government”, published in August 2018 by the Hong Kong Federation of Youth Groups’ Youth Research Centre, 66.7% of Hong Kong’s youth did not trust the Government, with more than 70% being dissatisfied with Government’s performance on nurturing governance talents. Many also felt that there were not enough opportunities for aspiring young leaders to build up relevant competencies.291 The younger generation is the future of our society, which makes it inevitable that continuous dedicated efforts from Government are necessary in the area of youth development.
Addressing Housing Issue of Hong Kong

Housing is a complex and pressing livelihood issue that has been causing widespread public discontent in Hong Kong. The city with the world’s most unaffordable residential properties saw its overall private residential price in August 2018 reached its historical peak, tipping HKD 13,700 per square feet\(^2\). At the same time, applications for public rental housing (PRH) are piling up. As at end-September 2018, there were about 267,770 applications lining up for PRH and the average waiting time was 5.5 years (i.e. 0.6 year longer than that of September 2016)\(^3\), reflecting a severe shortage of public housing.

To cope with the challenges, Government has previously introduced different measures to cool down the property market and alleviate the shortage of supply\(^4\). An example of such measures is the increase of ad valorem stamp duty (AVD) rates for all residential property transactions to a flat rate of 15% with effect from November 2016\(^5\). The Long-Term Housing Strategy was promulgated in 2014 aiming at closing the imbalance between property demand and supply\(^6\). Although there has been a reduction in the number of property transactions due to the increase of AVD, the city’s property prices stand firm at a record high level\(^7\). In the 2018 Policy Address, the Chief Executive recognized surging property prices and shortage of housing supply as major livelihood concerns of the public\(^8\) and committed to focus on increasing supply of land and housing units under the new housing policy to address the issue.

Owning a property in Hong Kong is considered one of the most desired achievements for Hong Kong families\(^9\). However, the persistent imbalance between housing demand and supply, long average waiting time for PRH and soaring property prices have also made it one of the hardest.\(^10\) To address this issue, Government has introduced six new housing initiatives in June 2018\(^11\) as short-term measures to increase new homeowners. These six new housing initiatives include revising the pricing policy for Subsidised Sales Flats (SSFs), assigning a Starter Homes pilot project at Ma Tau Wai Road, reallocating private housing sites for public housing, setting up a task force to assist the community to take forward transitional housing projects, introducing Special Rates on vacant first-hand private residential units and amending the Lands Department Consent Scheme to improve sales practices. According to the Policy Address\(^12\), the most important one among the six is reallocating the pricing mechanism for SSFs Projects. The new pricing mechanism targets to achieve at least 75% (up from 50%) of flats are priced at an affordable level for White Form family applicants\(^13\). Due to the new pricing policy, the Hong Kong Housing Authority has re-opened applications for Home Ownership Scheme 2018. Together with the “Green Form Subsidised Home Ownership Scheme” put up for presale in late 2018 and the “Starter Homes” pilot projects at Ma Tau Wai Road\(^14\), these three projects are expected to provide a total of 7,426 extra housing units\(^15\). Nevertheless, the public appears to remain doubtful about effectiveness of these measures, especially in taming the city’s soaring property prices\(^16\).

Another important proposal by Government is the Lantau Tomorrow Vision (LTV) acknowledged in the Policy Address 2018\(^17\) as a potential source of land in medium to long-term. Under this proposal, the artificial islands are expected to provide a total area of some 1,700 hectares near Kau Yi Chau and Hei Ling Chau. It translates into space for 260,000 to 400,000 new residential units, of which 70% will be reserved for public housing projects accommodating a total number of 1.1 million people\(^18\). The Government aims at commencing the first phase of reclamation in 2025 and the LTV is expected to be realized and completed in 20 – 30 years\(^19\). Another axle of the LTV is the new transportation corridor linking the coastal areas of Tuen Mun and North Lantau, and the development of the Aerotopolis as the third Core Business District (CBD) of Hong Kong\(^20\). The corridor aims at strengthening the role of Lantau as a “Double Gateway” and facilitating the formation of the Western Economic Corridor while the CBD aims at providing room for the development of conventional and emerging industries and, hence, creation of 340,000 jobs\(^21\).
The residential and commercial development plan of the Siu Ho Wan depot introduced in early 2018 was also included in the LTV. The depot will be developed into a Siu Ho Wan community with public and private housing as well as community facilities. The Government anticipates the development project to provide at least 14,000 residential units in medium to long-term and the project has already entered into statutory approval process.

Despite all the potential benefits highlighted in the Policy Address, the LTV project, like many other government proposals, has caused mixed reactions from the public, lawmakers and environmentalists. A survey conducted by The Hong Kong University Public Opinion Programme found that only 39% of respondents supported the 1,700 hectares artificial island proposal, discontent on which also reflected by multiple protests and waves of media criticism since its announcement. Opposing views towards the LTV focus primarily on its negative environmental impacts and the expensive reclamation costs. Detractors find costs of the project unjustifiably high as the LTV could cost up to HK$ 500 billion; others also consider it too risky to source half of the city’s fiscal reserves to one single project. Nevertheless, the LTV does have supporters too. Thirty-eight Economists have signed a petition to support the LTV, claiming it to be a great social investment and declaring their confidence to it. Hong Kong has also gained good name on environmental protection and land reclamation has proven to be instrumental when several new towns were built on reclaimed land such as Tseung Kwun O, Sha Tin and Tuen Mun. Other supporters of the LTV generally view reclamation as the only and most efficient solution to increase land supply.

Another long-term project included in the 2018 Policy Address is the development of Brownfield Sites in the New Territories. The project will cover 340 hectares of brownfield sites in the New Developed Area of Yuen Long South and Fanling North, as well as 200 hectares in the New Territories North Strategic Growth area. Government believes that the development of brownfield sites would help creating housing supply and improve the haphazard landscape in some parts of the New Territories. The New Territories North project is expected to provide homes for 255,000 to 350,000 people which equals to the population size of seven to ten TaiKoo Shing estates. However, the project is still in the conceptual stage and is expected to be completed only after year 2030.

With the expected substantial increase in residential units in the near future, property management has become another concern since a number of new developers who have limited property management skills have entered the property market in recent years, bringing up the need for regulating the property management field. The Property Management Services Authority (PMSA) was established accordingly in 2016. Aiming at regulating providers of property management services, the PMSA has commenced operation by actively liaising with stakeholders on establishment of an effective licensing regime. The first public consultation was launched on 21 November 2018 regarding the licensing regime for property management companies / practitioners under the Property Management Services Ordinance (Cap. 626). The PMSA targeted to have the licensing regime finalized and enforced in 2019. The formation of this regulatory authority and its efforts so far have demonstrated the strong determination of Government to put property market under proper control to ensure its healthy development.

**Healthcare Services: Rising Up to the Challenges of an Ageing Population**

In the past decades, Hong Kong has developed a highly efficient healthcare system and has been leading the world since 2016 in terms of life expectancy. The quality of healthcare services continues to enjoy renowned international standing and stays at the forefront of advances in medical technology. However, Hong Kong faces multiple challenges with regard to its healthcare system in recent years including the increasing demand for health services due to an ageing population, staff shortages at all levels, and growing need to systemically reform its healthcare system. To tackle these problems, Government plans to take forward the dual-track system of public and private healthcare sectors, allocate sufficient resources, upgrade supporting infrastructure, and provide more training to nurture healthcare talents so as to enhance healthcare services for the public.
Ageing population remains a global trend in the 21st century and is a social challenge shared by every developed economy in the world, including densely populated cosmopolitan cities like Hong Kong. According to the latest projections by Census and Statistics Department, the number of elderly persons will rise from 1.16 million and 16.6% of the total population in 2016 to 2.37 million and 31.1% of the total population in 2036. In 2066, the number of elderly persons is projected to reach 2.59 million, accounting for 36.6% of the total population. To deal with such demographic challenges, Government has implemented various policies to alleviate the burden of medical expenses on elderly persons. For example, the Social Welfare Department has launched the Higher Old Age Living Allowance in June 2018 to provide a monthly allowance of HK$3,435 to eligible elderly persons with more financial needs. The Government also raised the accumulation limit of Elderly Health Care Vouchers from HK$4,000 to HK$5,000 in 2018 and will offer an additional HK$1,000 worth of vouchers in 2018-19 to eligible elderly persons on a one-off basis, involving an expenditure of about HK$796 million, to offer users greater flexibility when paying for services provided by medical practitioners, dentists and Chinese medicine practitioners in the non-public sector.

In addition to providing financial support to elderly, Government will continue to uphold the dual-track healthcare system and recalibrate the public-private balance through implementing Voluntary Health Insurance Scheme (VHIS). The VHIS aims at improving the accessibility, quality and transparency of hospital insurance through regulating individual indemnity hospital insurance products. The VHIS is an important part of a more integrated and balanced healthcare system where private healthcare services are better utilized and made more affordable by insurance coverage so that public healthcare services get less crowded and can better serve those truly in need. The Voluntary Health Insurance Scheme Office has started accepting submission of applications from insurance companies for registration as VHIS Providers and certification of insurance plans since 1 December 2018. The Government will fully implement and promote VHIS as well as providing tax deduction to encourage subscription of Certified Plans.

On the other hand, artificial intelligence (AI) can potentially offer great contribution to the healthcare industry in numerous ways, such as intelligent diagnosis, wearables, AI health monitoring, robot-assisted surgery, intelligent medical image recognition and medical genomics, resulting in more effective treatments and lower medical costs. In view of such significant benefits, Government has planned to earmark HK$10 billion to support the establishment of two research clusters on healthcare technologies as well as AI and robotics technologies. The clusters aim at attracting top research talents and experts from around the world to Hong Kong for R&D projects in collaboration with local universities and scientific research institutions.

Furthermore, Government has commenced a number of initiatives under the 10-year Hospital Development Plan, costing a total of HK$200 billion. A mid-term review of the plan will be conducted in 2021. The Hospital Authority has also started planning for the second 10-year hospital development plan, for which another HK$300 billion has been reserved to upgrade facilities in public clinic and hospital, as well as training and educational facilities. The second 10-year hospital development plan covers the study of in-site redevelopment of Princess Margaret Hospital and Tuen Mun Hospital, construction of a new hospital at the King's Park site and expansion of North Lantau Hospital. Through redeveloping existing hospitals, Government expects to deliver 3,000 to 4,000 additional hospital beds and provide additional facilities to support more patients. In May 2018, Finance Committee of the Legislative Council approved the funding of HK$10 billion for the first phase of Kwong Wah Hospital's redevelopment which involves construction works for a new hospital complex to accommodate most of the core clinical services currently located in the Main Hospital Building, as well as associated external and landscaping works.

Another essential building block of a stable healthcare system, in addition to modern facilities, is an adequate supply of healthcare professionals. The Government and the University Grants Committee are having discussions on further increasing publicly-funded training places for doctors, dentists, nurses and relevant allied health professionals from 2018
to 2020. In order to equip more professionals with the necessary skills, an additional funding of HK$200 million per year will be provided to strengthen healthcare professional trainings under the Hospital Authority, including clinical practicum, as well as specialist and advanced training.

However, increasing publicly-funded training places is not sufficient to address the manpower issue. According to the report released by Our Hong Kong Foundation in November 2018, the medical system in Hong Kong has been heavily imbalanced, with public hospitals providing care to more than 90 per cent of inpatients and battling a chronic shortage of staff. A record-high number of doctors left public hospitals with a turnover rate of 5.7% worsened the problem. The Government’s plan to import overseas doctors has also not been effective due to the excessively high threshold of the Licensing Examination and one-year limited registration scheme. Many overseas qualified and registered doctors faced hurdles of difficulties when they sought medical qualifications in Hong Kong, so only 12 foreigners joined the scheme in 2016. The Medical Council has imposed a limit on overseas-trained doctors, and its transparency and fairness of the operation has raised public concern. To restore public trust and attract more qualified overseas doctors, the Legislative council approved the reform of the Medical Council in March 2018 to add four new lay members to the 28-member body, with three from patients’ groups and one from the Consumer Council. The length of the validity period for doctors with limited registration has also been extended from not more than one year to not exceeding three years. Such measure may partly help alleviate the manpower shortage in the public sector.

In addition, to modern facilities and manpower supply, it is important to enhance district-based primary healthcare services to effectively alleviate the pressure on public hospitals by establishing District Health Centres (DHC). Through district-based medical-social collaboration and public-private partnership, the DHCs will provide services such as health assessment, chronic disease management and community rehabilitation. It will be a service hub with a Core Centre serving as the headquarters and complemented by five Satellite Centres in sub-districts at convenient locations, and will form a service network manned by medical and healthcare practitioners in the district. To prepare for the establishment of the DHCs, the Food and Health Bureau (FHB) has conducted 12 consultation sessions with different stakeholders and medical professionals. The first district health centre will be set up in Kwai Tsing District in the third quarter of 2019. The FHB has also established a working group on DHC Pilot Project in Kwai Tsing District to provide advice on the planning, implementation and evaluation of the DHC pilot project. DHC will then progressively be set up in all 18 districts.

In view of the increasing demand for Chinese medicine services, Government has established the Chinese Medicine Hospital Project Office and the Chinese Medicine Unit under the Food and Health Bureau, to oversee the development of Chinese medicine in Hong Kong. As announced in the 2018-19 Budget, a dedicated fund of HK$500 million administered by the Chinese Medicine Unit has been established to promote the development of Chinese medicine. The fund will commence operation in the first half of 2019 and will offer support in areas such as research, knowledge exchange and cross-market co-operation. It will also assist local Chinese medicine traders with the production and registration of proprietary Chinese medicine. Government has also decided to finance the construction of a Chinese medicine hospital on a reserved site in Tseung Kwan O to meet the increasing demand for Chinese medicine services.

Moreover, the Innovation and Technology Commission will strive to support scientific research and encourage the application of scientific findings in empirically establishing the clinical efficacy of traditional Chinese medicines. Government is also working hard to establish the Government Chinese Medicines Testing Institute which specialises in the testings of, and scientific researches on Chinese medicines. With the employment of state-of-the-art technology, the Institute aims to develop a framework of internationally-recognised reference standards for Chinese medicines and related products, and help develop Hong Kong into an international hub for scientific research on Chinese medicines. Despite being widely recognized as having one of the best healthcare systems in the world, Hong Kong has been facing multiple challenges such as an overstretched public hospital
system due to ageing population and limited service offering due to manpower shortages. The role of robotic technologies, health professionals and development of Chinese medicines could be the keys to improving the quality of and access to healthcare services for the general public.

**A Sustainable Future That Starts Now**

The world we live in is changing more and more rapidly as sustainability challenges such as resource efficiency, climate change impacts and transitional risks continue to grow in relevance, causing a growing number of policies and regulatory pressures targeting sustainability issues. Tightened regulations are observed both locally and internationally.

The year 2018 is marked by a clear governmental focus on tackling Hong Kong’s waste issues. Major new policies and key developments during the year cover municipal solid waste, e-waste and recyclable waste, which virtually left no one behind in the city’s pursuit of “dump less, save more, recycle right”.

To promote resources saving as well as waste reduction and recycling in order to reduce carbon emissions and facilitate a transformation to low-carbon living, the Waste Disposal (Charging for Municipal Solid Waste) (Amendment) Bill has been introduced into the Legislative Council in late 2018. The Bill proposes to adopt two charging modes, namely "charging by designated garbage bags" and "charging by weight", to implement municipal solid waste (MSW) charging based on the “polluter-pays” principle and the existing waste collection system. The Government estimates that MSW charging could be implemented by end-2020 at the earliest and intends to provide an additional provision of around HK$300-400 million for the 2019/20 financial year and would further increase the amount to no less than HK$800-1,000 million from the financial year when MSW charging is to be implemented. This policy is likely to have a significant costs impact on the city’s catering, hospitality and construction industry.

Hong Kong produces about 70,000 tons of waste electrical and electronic equipment per year of which 80% is exported and the remaining is disposed in our local landfills, regardless of the toxic contaminants that linger. Commencing the third quarter of 2018 under the Producer Responsibility Scheme, the disposal of eight types of Regulated Electrical Equipment (REE), namely air-conditioners, refrigerators, washing machines, television sets, computers (including desktops, laptops and tablets), printers, scanners and monitors, will be regulated. The Environmental Protection Department has also set up e-waste collection vehicles in 18 districts to collect e-waste from the public on weekends.

The Government will also impose disposal licensing control, import and export permit control and landfill disposal ban in respect of abandoned REE starting from 31 December 2018. Any person who is engaged in the storage, treatment, reprocessing or recycling of abandoned REE must obtain a waste disposal license; a permit will be required for the import and export of abandoned REE; and abandoned REE will no longer be accepted for disposal at the landfills and other designated waste disposal facilities (e.g. refuse transfer stations).

While policies can be set to promote the practice of “dump less, save more”, readiness of the recycling industry is key to achieving the goal of “recycle right” given Hong Kong’s proud position as a free market economy. Moreover, if Hong Kong is to become a truly sustainable city, the recycling industry would naturally have an extremely important role to play.

Following earlier announcements to prohibit 24 categories of recyclable materials beginning 1 January 2018 and the imposition of tighter quality standards on all scrap imports beginning 1 March 2018, China further announced in April 2018 its plan to ban imports of 32 types of solid waste, including compressed car scraps and scrapped ships. Many Southeast Asian countries quickly followed by introducing similar, albeit less restrictive, waste import policies. Thailand has recently imposed tighter inspections and turned back cargoes of illegal, unlicensed shipments of waste plastic and electronics. Vietnam has stopped issuing
new import licenses for waste, while Malaysia has been revoking the import permits of plants that process plastic waste.\textsuperscript{351}

Before Mainland China’s ban on waste imports, there were few incentives for Hong Kong’s recyclers to leave the comfort zone where they could earn easy profit by simply collecting or importing waste then ship them across the border - a HK$4.2 billion business according to Government’s latest figure of 2017.\textsuperscript{352} A study conducted by the Hong Kong Baptist University in the same year suggested that Hong Kong’s recycling industry were underdeveloped and lacked skilled-labors. Out of the 215 local recyclers that participated in the study, more than 80% considered Government supports insufficient but were at the same time unfamiliar with the Government-backed Recycling Fund which was introduced in 2015. Only 23% offered on-the-job trainings to their employees, with occupational safety and health policies found in less than 30% of the responding companies.\textsuperscript{353}

To assist the industry to rise to the new challenges, Government launched the Recycling Fund in 2015 with a 5-year budget of HK$1 billion in total. The Fund runs two regular programmes, for which applications are accepted on a rolling basis, to both individual recyclers and non-profit distributing organizations such as professional bodies, trade and industry organizations and research institutes, providing project-based funding of up to HK$ 15 million per project\textsuperscript{354}. Since 2017, in direct response to the challenges faced by the industry due to Mainland China’s new import policies, the Fund earmarked a few rounds of funding for specific purposes, including a HK$50 million reserve for the Theme-based Scheme introduced in July 2017 to encourage use of compactor trucks to enhance operation\textsuperscript{355}; the Small-scale Standard Projects scheme established in September 2017, with an initial funding of HK$20 million\textsuperscript{356} followed by an additional HK$30 million in August 2018\textsuperscript{357}, to assist the recycling industry to upgrade its capability to process local plastics and metal waste; and the allocation of HK$20 million in November 2017 to encourage IT adoption\textsuperscript{358}. Rental expenses arising from approved projects are also available under the Fund’s Enterprise Support Programme\textsuperscript{359}. To date, the Fund has approved funding for 192 applications, among which 151 projects are either in progress or ready to start, involving a total funding of more than HK$110 million\textsuperscript{360}. There is no doubt that Hong Kong’s recycling industry is due to undergo a series of upgrade and transformation, and Government’s continual support will be essential for the sustainable development of both the industry and the city in the long run.

As a leading international financial centre, Hong Kong attracts investors from all round the world. Although the concept of Sustainable Investing used to be a rather niche pursuit, it is now an ever-more prominent theme among investors. The intensity of recent development has been driven by a fundamental shift in how investors, asset owners and regulatory authorities view environmental, social and governance (ESG) issues.

In partnership with the United Nations Environment Programme Finance Initiative and United Nations Global Compact, an international group of institutional investors developed the Principles for Responsible Investment to reflect the growing importance of ESG issues within investment practices.\textsuperscript{361} Since its launch in 2006, more than 2,100 signatories representing US$81.7 trillion in total assets under management have signed up to the Principles.\textsuperscript{362} In May 2016, the ESG in Credit Ratings Statement was also launched under the same initiatives for investors and credit rating agencies to publicly state their recognition of the value of considering ESG factors transparently and systematically in credit risk analysis. The statement is now endorsed by 130 fixed income investors with over US$26 trillion in collective assets under management and 16 credit rating agencies, including Standard & Poor’s, Moody’s, and Fitch Group.\textsuperscript{363}

In late 2017, the Morgan Stanley Institute for Sustainable Investing and Morgan Stanley Investment Management conducted a survey that polled 118 public and corporate pensions, endowments, foundations, sovereign wealth entities, insurance companies and other large asset owners worldwide. Of those who completed the survey, 60% had total assets of over US$10 billion. It was found that 84% of the asset owners surveyed were at least “actively considering” integrating ESG criteria into their investment process, with nearly half already integrating it across all their investment decisions. The study further concluded that more
than one quarter of the world’s professionally managed assets, roughly US$22.9 trillion, now have some sort of sustainable investing mandate.\(^{364}\)

In May 2018, the European Commission adopted a legislative proposal for regulations introducing disclosure obligations on how institutional investors and asset managers integrate ESG factors in their investment decision-making and risk management processes.\(^{365}\) Exact requirements will be further specified and adopted by the Commission and member states at a later stage. Under the proposed regulations, certain institutional investors might no longer be allowed to invest in companies with unsatisfactory ESG disclosure or performance in the foreseeable future.

However, in the context of Hong Kong, sustainability seems to be a rather peripheral issue that receives far less attention than it does on a global level, as evidently the fundamental shift of attitude towards the concept has just started to take place.

Effective for the financial year starting 1 January 2016, the Listing Rules of Hong Kong has made it mandatory for listed companies to publish ESG reports according to the Hong Kong Stock Exchange’s (HKEx) ESG Reporting Guide which requires general disclosure under a total of 11 environmental and social aspects.\(^{366}\) After the first year of implementation, HKEx conducted a review of 400 randomly selected ESG reports and published the results in May 2018. The level of overall compliance with the Guide was found to be satisfactory but the quality of reporting varied greatly. Only 38% of sampled issuers were in compliance of all 11 aspects mentioned above, and in many cases issuers either gave short and simple statements without any explanations or details, or lengthy narratives that purported to respond to the disclosure requirement, leading HKEx to conclude that a “box-ticking” approach might have been adopted by a considerable number of issuers.\(^{367}\)

A joint survey involving more than 200 senior executives of Hong Kong listed companies conducted from February to April 2018 by KPMG, CLP Holdings and the Hong Kong Institute of Chartered Secretaries also found that, while the values of ESG are positively recognized by a two-third majority, the remaining one-third either consider ESG merely a public relation/marketing issue or a compliance burden that does not benefit the business. A similar number of respondents either believe there is no correlation between a business’s ESG performance and its market competitive advantage, or that the two are negatively correlated to each other.\(^{368}\)

According to the Sustainable Stock Exchange Report, published annually since 2012 as part of the United Nations Sustainable Stock Exchanges (UNSSE) initiative, The Hong Kong Stock Exchange was ranked 24th in 2017 among 55 stock exchanges around the world in terms of its listed companies’ sustainability disclosure performance, a drop from its 2014 ranking at the 17th.\(^{369}\)

In comparison, New York and London, the other two leading international financial centers came in 35th (from 34th) and 4th (from 9th), respectively. Among “The four Asian Dragons”, Singapore came in 16th (from 22nd), Taiwan came in 11th (from 21st) and Korea dropped slightly from 31st to 32nd.\(^{370}\)

In the waves of the growing awareness of ESG among global investors, Hong Kong’s slow uptake of the ESG integration momentum, both over the years and in comparison to other cities, could undermine its competitiveness in the long run as a leading international financial center. It is of utmost importance and urgency for Hong Kong to develop a robust ESG framework, within which both the private and public sectors should have a key role to play. HKEx has been putting in continual efforts in the past few years. Apart from holding regular seminars and having a section of its website dedicated to ESG, on which the latest requirements, list of FAQs and a step-by-step guide on ESG reporting can be found, HKEx also became a Partner Exchange of the UNSSE initiative in July 2018.\(^{371}\) Per HKEx’s announcement in November 2018, it planned to review the current ESG framework and have informal discussions with stakeholders with a view towards consulting the market in mid-2019 on proposed changes to existing rules.\(^{372}\)
Given the number of changes anticipated in the coming year, Hong Kong businesses might soon find themselves operating in an environment that runs according to a new set of rules and values that used to be just slogans and soundbites. It is vital for every sector of the society to look beyond immediate benefits and focus instead on ensuring that the future we all share is sustainable.

3. POLITICAL FACTOR

Invisible Waves under the New Style of Governance

Against the backdrop of unrest Hong Kong has gone through in the past few years, Carrie Lam’s first year in office as Chief Executive undoubtedly appears as a positive turnaround for the people. With the approach of “We Care, We Listen, We Act”, the new-term government has made a good start in easing the political tension built over previous years and soothing the bitter memories of constitutional reform and the 2014 Occupy protests.374

By putting politics aside to focus on livelihood issues, Government succeeded in regaining a certain level of trust from the public through broaching some difficult problems with fresh thinking, which includes making subsidized housing more affordable by delinking the price from the market rate, taxing new unsold flats to speed up supply, and showing greater commitment to development innovation and technology and efforts in promoting the national “Belt and Road Initiative” and the “Greater Bay Area” integration which is a blueprint for better development of the city.375 The rising discontent over socio-economic problems such as income disparity and unaffordable housing in the past few years has been slightly alleviated, along with robust economic growth and the lowest unemployment rate in more than 20 years.376

The new strategies implemented by Government have escalated Lam’s popularity among the public. According to a survey conducted by Public Opinion Programme of The University of Hong Kong in August 2018, citizens have given their first female Chief Executive a job approval rating of 55.3 out of 100, compared with 44.7 for her predecessor at the same point in his term.377 A survey conducted by the Hong Kong Institute of Asia-Pacific Studies at the Chinese University of Hong Kong echoed the findings, revealing that Lam received higher than passing mark, i.e. 50 out of 100 on eight of the ten aspects, which included “Competence” (59.5), followed by “Trustworthy” (56.3), “Incorruptible”(56.1), “Tolerance of different political forces”(55.7), “Caring the plights of the people”(53.5),“Improve Hong Kong economic development”(53.3),“Balance the interests of Mainland and Hong Kong”(52.4), and “Balance the interests of different parties”(51.6).378 By rebuilding public trust with a series of livelihood programmes, the social atmosphere is comparatively calmer and the new government has left a positive impression with the general public in order to initiate a good beginning in tackling a wide range of deep-seated issues.

Apart from building public trust towards the new government regime, the new leader of the city has endeavoured to improve the executive-legislative relationship to cool down the political temperature, which peaked during her predecessor’s term. In contrast, Lam appears to be more proactive in attending Legislative Council meetings to explain policies and paying more attention to getting things done.379 According to the figures of Legislative Council, she attended 11 out of 42 council meetings and answered 139 questions from lawmakers in 2017-18 legislative year, as well as adding seven extra monthly questions and answers sessions, which helped keep her earlier pledge to pursue better communications with the legislators.380 The ameliorated relationship between the executive and legislative branches was essential in efficient bill passage. In the 2017-18 legislative year, the Legislative Council passed 27 bills, which was more than double the 12 bills passed in 2016-17.381 The number of bills and public works funding proposals approved has reached a record high in the past year, which is a key indicator of a better tie between the executive and legislative branches. Following her pledge to building a more inclusive government, Lam appointed members from both the pan-establishment and pro-democratic camps to advisory bodies to allow for greater diversity in the group and reflected the “true” public voice.
While Lam demonstrated her “decisive” style of governance, Government has also been active in engaging the business sector. In November 2018, Lam led a 160-strong delegation of business and political leaders from Hong Kong in visiting the Mainland. Lam has also been reaching to the business sectors through luncheons and the media. In return, the business leaders have laid their support to the Chief Executive.

In spite of the relatively calmer social ambience, the new government regime does not seem to run out of highly controversial issues to deal with - for example, the disqualification of lawmakers and election candidates for apparently not upholding the Basic Law, the prosecution and jailing of student activists who took part in the occupy movement in 2014, dealing with the rise of pro-Hong Kong-independence mentality, and most importantly legislating for Article 23 of the Basic Law which concerns issues related to national security.

4. REGIONAL FACTOR

Gearing up the City for the Turbulent of Trade War

Apart from the local political factors, the socio-economic development and political atmosphere of Hong Kong is largely shaped by the global forces. President Donald Trump campaigned for election on a promise to make trade fairer for the US, and has made reducing the trade deficit a key goal of his policies.

The US has been embroiled in a tit-for-tat trade battle on several fronts over the past few months. From Spanish olives to Canadian steel, no corner of the world has been untouched by US trade tariffs - a tax on foreign products - since President Trump entered the White House. Under President Trump, the Department of Commerce has begun 122 investigations into anti-dumping/countervailing duties, which have targeted every edge of the globe, reaching 31 countries in total and affecting some US$12 billion in imports. According to US Customs statistics, the country's trade deficit with China totalled US$376 billion in 2017, making China becoming the key target of the US tariffs, about 40% of countervailing/antidumping investigations targeting Chinese products ranging from aluminium alloy to rubber bands to silk ribbons.

The magnitude of the trade war between the dominant market players could be extensive, in view of their economy size. According to the World Bank, the US and China accounted for 24.32% and 14.84% of the global GDP. China, as the second-biggest economy, also accounts for 35.2% of the global GDP growth. The International Monetary Fund (IMF) warned that the escalation of the tariffs could trim 0.5% global growth by 2020.

The US has imposed three rounds of tariffs on Chinese products in 2018, totalling US$250 billion worth of goods. The ongoing tariffs battle between Washington and Beijing, is not just about Americans buying too many Chinese goods: It is also because the US is uncomfortable with China’s growing power. The back-and-forth began in January 2018 when the US rolled out safeguard tariffs on washing machines and solar cell imports, signalling China out in the official statement the US released. Less than a month later, President Trump signed tariffs on imported steel and aluminium from all nations. On 6 July 2018, the tit-for-tat trade dispute developed further, with Trump collecting a 25% tariff on 818 imported Chinese products (List 1) valued at US$34 billion. On the same day, China takes retaliatory measures by imposing a 25% tariff on 545 goods originating from the US, worth US$34 billion, including agricultural products, automobiles and aquatic products. On 23 August 2018, the US implements a 25% tariff on 279 goods originating from China, which worth US$16 billion. Goods targeted at semiconductors, chemicals, plastics, motorbikes and electric scooters, etc. China retaliated in kind by implementing a reciprocal 25% additional tariff on US$16 billion of US exports to China, including commodities such as coal, copper scrap, fuel, buses, and medical equipment.

In late September 2018, Trump rolled out a 10% tariff on US$200 billion of Chinese goods effective till the end of 2018, with the potential to rise to 25% in 2019. President Xi responded with tariffs worth US$60 billion of American goods. The first two lists of
tariffs implemented by the US, covering industrial, non-consumer products particularly in areas identified under China’s “Made in China 2025” plan designed to encourage growth in particular industries. Unlike the previous waves of tariffs increase, List 3 consists of a wide range of consumer goods, ranging from grocery items to precious stones.

Despite the continuous effort imposing trade protectionism, the US goods trade deficit hit a record high of US$77.2 billion in October 2018, up from US$76.3 billion the month before. While economists dismiss the deficit as an inaccurate measure of the US’s economic competitiveness, Trump has focused on the number and has made bringing down the deficit one of the key goals of his trade policy. Nevertheless, initiating the trade war had not secured the Republicans’ midterm elections results. The Republican Party lost control of the House of Representatives as Democrats capitalised on anti-Trump anger and the retirement of a large number of incumbent Republicans. In the meantime, the Republicans will maintain a Senate majority. Neither party could pass the legislation on their own without facing a gridlock.

On 1 December 2018, the US and China have resumed negotiation in the trade war, after Trump agreed to cancel a planned 1 January 2019 tariff increase US$200 billion of Chinese imports by 1 March 2019 in return for increased Chinese purchases of American farm and industrial goods. If the two sides cannot reach an agreement by the end of the grace period, the US will increase tariffs on the US$200 billion of goods from 10% to 25%. Nevertheless, the Washington and Beijing relationship remains stained with trading dynamic has changed between Washington and Beijing in the almost two years since Trump began implementing his “America First” trade policy overhaul, and it cannot easily return to the status quo. The grace period has also been under the shadow of the detention of Meng Wanzhou, CFO of Huawei and Canadians held in custody in China.

While the Mainland and Hong Kong markets rejoiced on postpone for the worst of the trade war, both regions should be braced for the effect of tariff increase. Experts doubted any concrete steps to ease tensions between the two economic giants could be achieved during the short time frame. The IMF warned that China would take a major toll, with a 1.6% GDP reduction in 2019, if the US imposes tariffs on all Chinese imports. While the GDP of US will be trimmed by 0.9% only if China imposes the tariffs, China should, over the longer term, leverage on its stature as the world’s largest and most promising market, as well as its commitment to expanding its open-door policy, in order to secure the support of the developing and the developed nations. It should also seek to increase its level of influence in the international arena as the means of driving the reform of the global trade system.

Hong Kong, which has served as the re-export hub between the two nations for decades, and whose biggest trade partner is the Mainland, is inevitably sandwiched between the two sides. Almost half of the Chinese goods shipped to the US via Hong Kong have been hit by the tariffs. The US is the city’s second-largest trading partner. The impact would be yet to emerge and the local economy still managed to grow between 2.9% and 4% in 2018.

Technically, Hong Kong is protected by the United States-Hong Kong Policy Act, which means the US has treated the city separately from China in terms of trade export and economics since the return of its sovereignty from the UK to China in 1997. Even if the US increases tariff on Mainland China do not apply to Hong Kong, yet Hong Kong as a middleman will definitely be affected by the trade war. The impact of the trade war on a tax-free port such as Hong Kong would be especially “visible”. Nevertheless, the shield may not be untouchable; a recent report by the United States Department of Commerce urged a rethink of the city’s special trading status with the US as distinct from Mainland China.
To gear up the city for the impact of the trade war, forging Free-Trade Agreements (FTAs) would be a priority. Hong Kong will seek to form close alliances with overseas markets such as Britain to open up more economic opportunities. Other candidates for free-trade deals would include Chile, Colombia, Mexico and Peru – the four-member trade bloc in Latin America called the Pacific Alliance. Hong Kong had signed FTA with Georgia in June 2018, taking its total to seven.\textsuperscript{420} Hong Kong and Australia will also sign the FTA and the Investment Agreement in the first half of 2019, after their negotiations concluded in November 2018.\textsuperscript{421}

The Government has also been investing in SMEs to expand their overseas market, provide export insurance, so as to help bank not tightening loan. The SME Financing Guarantee Scheme for small and medium-sized enterprises to obtain financing from lenders, which offers an 80\% loan guarantee, will be extended. The maximum loan amount will be increased from the current HK$12 million to HK$15 million, while the guarantee period will be expanded to seven years from five years. Joining fees for SMEs will also be reduced. Those measures, aimed at helping SMEs tap into the markets of the 10-member Association of Southeast Asian Nations, attracted 75 applications in the first month of their launch in August 2018. Applications for the BUD Fund, which subsidizes SMEs investing in the Mainland market, jumped 60\% to about 200 from the second quarter to the third quarter of 2018. The SME Export Marketing Fund, which aims to encourage small and medium enterprises to expand their markets outside Hong Kong by providing financial assistance, which was doubled to HK$400,000 on 1 August 2018, with 30\% increase in applications for the first eight months year over year.\textsuperscript{422}

The tide of the trade war is ever-changing, and it shall be challenging for the businesses to plan for the long term. Hence, the city should be prepared for the worst from the raging US-China trade war.

**Enhancing Collaboration in the Greater Bay Area**

The Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area) comprises the two Special Administrative Regions of Hong Kong and Macao, and the nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province. To put the scale of this development into perspective, the Greater Bay Area covers a population of nearly 70 million, similar to that of the UK; generates GDP of around UK$1.2 trillion, over half that of the UK or the size of Korea and Australia and spans an area of 56,000 sq km.\textsuperscript{423} Intellectual property creation and its trading have been growing significantly in the Greater Bay Area.\textsuperscript{424} In 2017, the number of patent applications from the Greater Bay Area outnumbered the total of the world's three other renowned bay areas, namely Tokyo, New York and San Francisco combined.\textsuperscript{425} It is clear that the Greater Bay Area's growth potential is enormous.

With a view to strive for greater convenience for Hong Kong people studying, working and living in the Mainland, the Central Government has implemented several facilitation measures. The Regulations for Application of Residence Permit for Hong Kong, Macao and Taiwan Residents (the Regulations) was announced on 16 August 2018 and has been effective since 1 September 2018.\textsuperscript{426} According to the Regulations, Hong Kong residents living in the Mainland who meet the relevant criteria can apply for residence permits. A residence permit holder is entitled to enjoy, in accordance with the law, a variety of rights concerning areas such as employment, education, medical care, travel and financial services.\textsuperscript{427} Previous restrictions on people of Hong Kong and Macao taking up employments in the Mainland are also removed.\textsuperscript{428} The people of Hong Kong and Macao working in the Mainland are now eligible to join the Housing Provident Fund and treated equally to Mainland residents when it comes to base deposit, deposit ratio, processing procedures, drawing money from the Housing Provident Fund and applying for personal housing loans.\textsuperscript{429}

Being the most open and international city in the Greater Bay Area, Hong Kong is known for being an international hub for financial, transportation and trade activities with renowned professional services. Enjoying the dual advantages of "one country, two systems",
Government will seize opportunities arising from the Greater Bay Area development proactively by playing the holistic role of a “facilitator” and “promoter”.

The Chief Executive, Mrs Carrie Lam, announced in the 2018 Policy Address the establishment of a high-level Steering Committee for the Development of the Greater Bay Area, with her as the chairperson and its membership comprising all Secretaries of Department and Directors of Bureau. The Steering Committee is responsible for the overall co-ordination of matters relating to the Hong Kong Special Administrative Region’s participation in the development of the Greater Bay Area. The Constitutional and Mainland Affairs Bureau will also set up a Greater Bay Area Development Office and appoint a Commissioner for the Development of the Greater Bay Area.

Enhancing connectivity between Hong Kong and the Greater Bay Area is also a central policy commitment of Government. The recent commissioning of two brand new mega transport infrastructure, Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macao Bridge, have improved connectivity within the Bay Area, reduced travelling time between Hong Kong and other Bay Area cities and boosted the flow of capital, talents, goods, business and information in the region.

The 26km-long Guangzhou-Shenzhen-Hong Kong Express Rail Link, which connects Hong Kong with the Mainland’s 25,000km-long National High Speed Rail Network, was launched in September 2018 and now brings people from the Bay Area to Hong Kong in a faster and more efficient way. This rail line has reinforced Hong Kong’s role as an international logistics hub. The Hong Kong-Zhuhai-Macao Bridge, which is the world’s longest sea crossing bridge, was announced officially open by Chinese President Xi Jinping on 23 October and started operation the day after. This bridge spans 55km (34 miles) and connects Hong Kong to Macau and the Mainland Chinese city of Zhuhai to further facilitate economic growth in the region. With this mega bridge, the travelling time between Zhuhai and the Hong Kong International Airport has been shortened from 4 hours to 45 minutes.

Meanwhile, construction work of the third runway system is underway at Hong Kong International Airport at Chek Lap Kok. Once the Three-Runway System takes off in 2024, the airport will be able to handle altogether nine million tonnes of air cargo and over 100 million passengers annually. It is believed that these three mega infrastructure projects will further consolidate Hong Kong’s pivotal role in the Bay Area for many years to come.

On the other hand, other cross-boundary infrastructure such as Liantang/Heung Yuen Wai Boundary Control Point (BCP) has been under construction since 2013, it will be the seventh land boundary crossing between Hong Kong and Shenzhen and the first road-based BCP with direct access facilities for both passengers and vehicles. Upon completion, it will shorten the average travelling time between Tai Po of Hong Kong and Longgang of Shenzhen by about 22 minutes.

Furthermore, the commissioning of transport infrastructure connecting both sides of the Pearl River, such as the Second Humen Bridge and Shenzhen-Zhongshan Bridge will create favourable conditions for attracting Mainland and overseas talents to the Greater Bay Area. The Second Humen Bridge is the widest steel box girder bridge (13 km long) in the world, it is an important expressway across the Pearl River and will commence service in the first half of 2019. Upon completion, it will shorten the travel distance between Dongguan and Panyu District by at least 10 km. Shenzhen-Zhongshan Bridge consists of a cluster of infrastructure, including a sea-crossing bridge, a subsea tunnel, artificial islands and an underground interchange. It is 24 km long and is the only direct expressway connecting Shenzhen, Dongguan and Huizhou with Zhuhai, Zhongshan and Jiangmen and will commence operation in 2024. Upon completion, it will reduce the travelling time between Shenzhen and Zhongshan from 2 hours to 20 minutes.

Efforts have been made to enhance collaborations in the Greater Bay Area. The national Ministry of Science and Technology and the Innovation and Technology Bureau of the Hong Kong Government signed a cooperation arrangement to promote exchanges and collaboration on science and technology in September 2018.
Furthermore, on 8 November 2018, Government and the Chinese Academy of Sciences signed the Memorandum of Understanding on Establishing Affiliated Institution by the Chinese Academy of Sciences in Hong Kong to facilitate its Guangzhou Institutes of Biomedicine & Health and Institute of Automation to establish their presence in the research clusters on healthcare technologies and set up artificial intelligence and robotics facilities at the Hong Kong Science Park. The institution will also promote transfer and application of new technologies, co-ordinate collaboration between the academy and local universities, and undertake educational and promotional activities; the agreement signing heralded an important new page in the technological collaboration between Hong Kong and the Mainland.

In addition, with a view to facilitating trade and the flow of goods, Hong Kong exercises minimal licensing control on goods entering or leaving the territory and does not levy any tariffs, value-added tax or sales tax. The Customs and Excise Department (C&ED) in Hong Kong has also been collaborating with the Mainland Customs to implement several initiatives such as the Single E-Lock Scheme and the Hong Kong-Mainland Mutual Recognition Arrangement for Authorised Economic Operators (AEOs). Under the Single E-Lock Scheme, electronic locks and global positioning system have been used to minimize repeated inspections of the same consignment by the two Customs authorities during import or export, thus enhancing the clearance efficiency of intermodal transshipment cargo across the boundary. There are now 34 clearance points in the Mainland (32 in the Guangdong Province and 2 in the Hunan Province), together with the 12 clearance points in Hong Kong, more than 400 route options are available to the trade. On the other hand, under the AEOs, goods consigned by enterprises accredited as AEOs by C&ED and/or the Mainland Customs enjoy customs clearance facilitation, such as reduced and prioritized customs clearance, from both authorities.

Nonetheless, the Greater Bay Area development initiative still faces several challenges. In the midst of trade turmoil, i.e. the US-China trade war, political uncertainty might get in the way of the development plan. Opinion polls have shown that Hong Kong residents are relatively sceptical about the Greater Bay Area plan – citing worries over the uncertainties of integration and whether it would compromise the city’s semi-autonomous status and civil right. A recent survey released in late October 2018 has found that 54% of Hongkonger had not set foot in a bay area outside Hong Kong and Macau in the past year, while those who had mostly were just sightseeing. The three biggest deterrents were “food safety”, “law and order”, and “transport”. As the social integration between Hong Kong and the Mainland would require a process of understanding and adaptation, more promotion and education on the Greater Bay Area initiative would be needed to attract talents across the region to participate in turning the Greater Bay Area ambition into reality.

**Engaging in Belt and Road Initiative and Challenges**

The Belt and Road Initiative is a flagship development strategy launched by the central government in 2013 with the intention of promoting economic cooperation among countries along the proposed Belt and Road routes. Over the past five years, the Belt and Road Initiative received positive response and participation by a number of countries. To date, over 100 countries and international organizations have signed cooperative documents with China on the co-construction of the Belt and Road – dubbed by many as the modern equivalent of the legendary Silk Road of ancient China. A Memorandum of Understanding between China and Greece with regard to jointly advancing the Belt and Road Initiative was signed on 27 August 2018 in the hope of enhancing the level of cooperation between two countries. The two nations will expedite the joint development of the Port of Piraeus and the China-Europe Land-Sea Express Line. In addition, an agreement on Belt and Road Initiative was signed between Portugal and China on 5 December 2018, confirming the inclusion of Portugal’s southwest port of Sines in China’s Belt and Road investment plans.

Since the Belt and Road Initiative initial proposal five years ago, the endeavours of participating countries in trade facilitation have significantly promoted multilateral trade
around the world.\textsuperscript{459} By the first half of 2018, trade volume between Mainland China and Belt & Road countries has exceeded US$600 billion, while the country's outward financial investment amounted to over US$7 billion. Chinese enterprises have built more than 80 overseas economic and trade co-operation zones, with a total investment of more than US$25 billion, creating over 244,000 jobs.\textsuperscript{460} To date, China has signed and implemented free trade agreements with 11 Belt and Road countries and regions and is also in negotiation with another 13 countries on free trade agreements.\textsuperscript{461}

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank launched in 2016, aiming at enhancing social and economic development in Asia and beyond by investing in sustainable infrastructure and other projects.\textsuperscript{462} With 57 signatories at its launch, the Beijing-headquartered AIIB now has 87 approved members worldwide\textsuperscript{463} and has approved projects worth more than US$5 billion.\textsuperscript{464}

Hong Kong has been a member of the AIIB since June 2017 and has played a proactive role in realizing AIIB's mission through its contribution to the fund. In July 2018, AIIB President Jin Liqun and the Chief Executive of HKSAR Carrie Lam announced that Hong Kong will contribute US$10 million to the AIIB Project Preparation Special Fund, which will provide grant support to low-income members of AIIB to finance high-quality infrastructure projects.\textsuperscript{465}

In addition, Hong Kong enterprises have been delivering world-class professional services and participating in a number of projects in regions along the Belt & Road, including a metro system in Saudi Arabia, airports in Cambodia, power plants in Vietnam and a waste management system in Bangladesh.\textsuperscript{466} According to the 2018-19 Budget, Government shall kick-start a HK$500 million Technology Talent Scheme to train and pool technical talents and, through the injection of HK$3 billion into the Research Endowment Fund, provide studentships for local students admitted to research postgraduate programmes funded by the University Grants Committee.\textsuperscript{467} To assist local enterprises, small and medium enterprises in particular, in seizing opportunities arising from the Belt and Road Initiative, the 2018/19 Budget also featured a commitment to provide a total of HK$250 million additional funding to the Hong Kong Trade Development Council over a period of five years from 2018-19.\textsuperscript{468}

Nevertheless, China's Belt and Road Initiative has also been facing several challenges. From Pakistan to Tanzania to Hungary, disputes are reportedly surfacing over cost-efficiency issues. There have also been complaints on projects completed by Chinese companies that leave host countries heavily indebted to Beijing yet offer little benefits to local economies.\textsuperscript{469} Sri Lanka had to lease out its Hambantota Port and land around the port to a Chinese shipping company for 99 years after falling behind in repaying the US$1.5 billion borrowed from Beijing to build it.\textsuperscript{470} Some projects are also causing racial and community tensions in their hosting countries. Chinese companies building rail and other projects in Indonesia were being criticized by local labor groups and politicians for bringing in their own Chinese workforce rather than hiring locally which raises racial conflicts between Chinese and non-Chinese communities.\textsuperscript{471} A number of projects under the Belt and Road Initiative are allegedly being cancelled, renegotiated or delayed.\textsuperscript{472} For instance, in November 2018, Malaysia announced that it would not be going ahead with three major Chinese projects costing around US$20 billion due to the fear that they will bring too much debt to the country. Sierra Leone, a developing country in Africa, has cancelled a Belt and Road Initiative Project and scrapped plans to build a China-funded US$318 million airport outside the capital in October 2018 as the country reckoned that it was uneconomical to proceed with the construction of a new airport when the existing one is under-utilized.\textsuperscript{473}

Furthermore, China is facing competition from the US and the European Union, both of which have been pursuing their own plans to counter China's expanding influence.\textsuperscript{474} In late July 2018, the US expanded its infrastructure drive in the Asia-Pacific region with new investment programmes.\textsuperscript{475} Under the plan, the US government would increase the financial support to countries in the region through a proposed merged agency, the US International Development Finance Corporation (USIDFC) and invests US$113 million in new technology, energy and infrastructure initiatives in emerging Asia, together with another US$50 million to help countries produce and store their energy resources and create a new support network to boost infrastructure development.\textsuperscript{476} US$25 million will be spent on
increasing exports of US technology to the region. The plan would also double the global spending cap for USIDFC to US$60 billion, which could be used to provide private companies with loans for projects overseas.⁴⁷⁷ The European Union also put forward its own connectivity programme with Asia in September 2018, aiming to create transport links, energy and digital networks within its own borders and in its immediate neighbourhood - largely the Western Balkans and Eastern neighbourhood.⁴⁷⁸ Several connectivity projects have been implemented. Concerning construction of infrastructure, the EU has invested EUR$35 million in the construction of the Zezelj Bridge in Serbia as part of the extension of the Trans-European Transport Network.⁴⁷⁹ Concerning electricity transmission system, the European Investment Bank is contributing EUR$70 million to enable Central Asian countries to sell their electricity surplus during summer months to deficient countries in South Asia, improving the electricity access and expanding markets in a sustainable way.⁴⁸⁰

All in all, China’s ambitious Belt and Road initiative still has a long way to go. Along its journey of dealing with various obstacles and challenges, Hong Kong can perhaps reflect on what role it can play in further contributing to the rise of China.

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