

SCED's speech at luncheon co-hosted by HKETO Berlin, HKTDC and SHKBA in Zurich (English only)

Following is the speech by the Secretary for Commerce and Economic Development, Mr Gregory So, at a luncheon co-hosted by Hong Kong Economic and Trade Office in Berlin, Hong Kong Trade Development Council and Swiss-Hong Kong Business Association in Zurich on January 24 (Zurich time):

Distinguished guests, friends, ladies and gentlemen,

It is my great pleasure to be here in the beautiful city of Zurich. I congratulate the Hong Kong Economic and Trade Office in Berlin, the Hong Kong Trade Development Council and the Swiss-Hong Kong Business Association on co-organising this event. Also congratulations to the Swiss-Hong Kong Business Association on its 10th anniversary this year. We deeply appreciate the Association's work in promoting Hong Kong as a great place for Swiss firms to do business.

Hong Kong and Switzerland are excellent partners in business and finance on many different levels. I would like to share with you today some areas where we see great potential for strengthening the spirit of co-operation between us.

I would also like to thank all of our guests for taking time out of your busy schedules to join this luncheon. I am delighted to see so many of you here.

This is an important time of year for Hong Kong. Just last week, our Chief Executive, Mr C Y Leung, announced his 2014 Policy Address outlining the Government's vision and blueprint for Hong Kong's development. Also last week, we hosted the annual Asian Financial Forum, which is the largest event of its kind in our region and sometimes described as the "Davos of Asia". And next week we will celebrate Chinese New Year and usher in the Year of the Horse. As well as the traditional New Year family gatherings there will be festive fireworks and parades and no end of predictions for the year ahead, including economic predictions.

No doubt some soothsayers will analyse the characteristics of the horse to try to predict what the year ahead has in store. According to the Chinese zodiac, the horse symbolises energy, intelligence, quick wit and a free spirit. So far so good! The horse also carries people to their destinations, so it is not just a symbol of travel, but also of speedy and successful conclusions.

For those of us who prefer a more fact-based economic outlook, the World Bank recently raised its global growth forecast to 3.2 per cent for 2014. The World Bank also predicts a more robust recovery for developed economies and a near doubling of global trade this year compared to 2012. Earlier this week, the International Monetary Fund also raised its global growth forecast for this year to 3.7 per cent.

Although it is overly optimistic to proclaim a successful conclusion to the recent global economic turmoil, forecasts of a stronger and more stable economic climate, especially in the United States and the Eurozone, are very welcome news for Hong Kong's free, open and externally-oriented economy.

Last week, the US-based Heritage Foundation ranked Hong Kong as the world's freest economy for the 20th year in a row. That includes the past 16 years since Hong Kong's return to China under the principle of "One Country, Two Systems". All along, we have practised and preached the benefits of an open and business-friendly environment with low and simple taxes, an effective rule of law, minimal red tape and free flows of money, information and talent.

We must be doing something right! The World Bank's Doing Business 2014 Report rates Hong Kong as the second easiest place on earth to do business. Hong Kong is also the third most competitive economy according to the Swiss-based International Institute for Management Development in its World Competitiveness Yearbook 2013.

What next for Hong Kong? Allow me to highlight some key business-related areas of our Chief Executive's Policy Address last week. For one thing, we need to diversify and expand the capacity of our industries. Promoting innovation and technology can help to increase the capacity and productivity of our economy. Innovation and technology is also an industry with huge potential for growth in Hong Kong. Indeed, promoting innovation, science and technology is the primary focus of my visit to Switzerland this week. Over the past two days I have visited some of your leading hi-tech companies, start-ups and tertiary institutions. I have also met with Swiss government officials and leading entrepreneurs to learn more about your country's successful strategy in promoting innovation and technology, a strategy that can serve as a guide for promoting our own hi-tech sectors.

Hong Kong also offers opportunities for Switzerland's hi-tech firms to get a

foothold in the massive, yet complex, China market as well as markets across Asia. As well as business-friendly policies, Hong Kong also has a great location, sophisticated infrastructure and a robust intellectual property protection regime to help innovative companies take off in Asia. Swiss firms can also take advantage of the Free Trade Agreement (FTA) signed in 2011 between Hong Kong and the Member States of the European Free Trade Association, including Switzerland.

Under "One Country, Two Systems" Hong Kong has separate legal, financial and economic systems to those in the Mainland of China. At the same time, our city is part of China. Remarkably in 2012, Mainland China overtook the United States for the highest number of filings in major types of intellectual property rights. We are exploring ways to establish Hong Kong as an intellectual property trading hub in Asia, not just for Mainland Chinese firms but also for innovative companies in Hong Kong, in Switzerland and around the world.

For us, low and simple taxes mean that we cap salaries tax at 15 per cent and businesses pay no more than 16.5 per cent profits tax. We have no inheritance tax, no VAT (value added tax), no GST (goods and services tax) and no capital gains tax. Almost all products, including luxury goods such as watches and jewellery, enjoy zero import tariffs. All this contributes to Hong Kong's reputation as a "shopper's paradise" for our seven million residents and around 50 million visitors annually, most of whom come from Mainland China. As a result, Hong Kong's shop windows have become a highly effective showcase for leading international brands to introduce their latest products to a large pool of enthusiastic consumers. Customers know they can trust the "sold in Hong Kong" label while marketing managers know that if their products sell well in Hong Kong they are also likely to sell well in the much larger Mainland China markets.

Hong Kong values its FTAs with different trading partners, including the Member States of the European Free Trade Association. We will soon start negotiations on an FTA between Hong Kong and the 10 member states of the Association of Southeast Asian Nations or ASEAN. This will help to strengthen our role as a trade and logistics hub in Asia and a gateway to and from the Mainland of China.

Under "One Country, Two Systems", Hong Kong enjoys a high degree of autonomy. This includes negotiating our own trade agreements with our international partners. This is made possible by the fact that Hong Kong remains a separate customs territory and is an individual member of the World Trade Organization and

the Asia-Pacific Economic Cooperation (APEC). We even have a unique free trade pact with our motherland called the Mainland and Hong Kong Closer Economic Partnership Arrangement, or CEPA. Under CEPA, all Hong Kong products that meet some straightforward rules of origin can enter the Mainland market tariff-free. Hong Kong's watch and clock industry, for example, is able to take advantage of CEPA to tap the vast Mainland market. Since its launch in 2003, CEPA has been expanded to include more than 400 trade liberalisation measures and now covers 48 services sectors. These include key sectors such as financial services, legal, tourism, information technology and trade and logistics services, just to name a few.

Importantly for our friends here in Switzerland, CEPA rules are nationality-neutral. This means that overseas firms incorporated in Hong Kong, including Hong Kong-incorporated Swiss firms, can enjoy the same benefits of CEPA as local companies in reaching the Mainland China market. There are plenty of opportunities for Swiss companies to take advantage of CEPA, so please do explore how this unique free trade arrangement can benefit your firms.

My final topic today is another area of strong mutual interest for both Hong Kong and Switzerland, and especially Zurich. That topic is financial services. Hong Kong serves a dual role as a major international financial hub in Asia and as China's global financial centre.

Our stock market is the second largest in Asia, behind Japan, and the sixth largest in the world with market capitalisation of over US\$3 trillion. The total IPO (initial public offering) funds raised in Hong Kong last year reached US\$21 billion.

With a financial system separate to that of Mainland China, Hong Kong has become a testing ground for the Central Government's financial market liberalisation over the past decade. In fact, it was almost 10 years ago to the day that banks in Hong Kong began offering the first Renminbi services to customers outside the Mainland of China. Today, the Chinese Renminbi is fast becoming an international currency, catching up with the euro and the US dollar. Please don't get me wrong. There is still a long path to travel for the internationalisation of the Renminbi. After all, it was only in 2007 that the first offshore Renminbi bonds were issued in Hong Kong and less than five years ago that companies outside Mainland China were able to use Renminbi to settle trade with their Mainland partners via Hong Kong for the first time.

Nevertheless, we have been able to establish Hong Kong as the world's largest

offshore Renminbi centre with more than 200 banks participating in our Renminbi clearing platform. Importantly, we have a highly sophisticated financial infrastructure. Our Renminbi Real Time Gross Settlement system handles a daily average of some 400 billion Renminbi worth of trade settlement and clearances. Total Renminbi deposits in Hong Kong reached 1 trillion Renminbi for the first time in November last year.

The liberalisation of the Renminbi is probably the single most important financial development globally today. Financial firms here in Zurich can be part of the action by using Hong Kong as their offshore centre for Renminbi business, and we are keen to share our experience and opportunities for offshore Renminbi business with you. Swiss companies, especially multi-nationals with operations in Mainland China, can also make use of the well-established platform in Hong Kong to raise Renminbi capital or expand their investment portfolios.

Hong Kong and Zurich are renowned as international business and financial centres. Yet we all know that it takes more than commerce to attract the best talent. The most competitive cities also provide a balanced high-quality lifestyle, a clean environment and world-class education. The Hong Kong Government is fully aware of the need to do more to improve our environment, provide more space for international schools and promote arts, culture and creativity. These topics feature prominently in the Government's blueprint for the city's development. In terms of the environment, we recently adopted new Air Quality Objectives to improve the quality of our air and we have set aside HK\$11.4 billion which is more than 1 billion euros (1.3 billion Swiss francs) to phase out old diesel vehicles. We have the largest international school sector in Asia comprising around 50 international schools, including the German Swiss International School. Two of the newest additions to our international school network include Harrow and Kellet, which both follow the United Kingdom school curriculum.

I am very pleased that the Zurich University of the Arts, a world-renowned art school, will open a learning centre in Hong Kong in March this year. This not only enhances Hong Kong's reputation as a regional education hub with freedom of expression, but also supports our development as an international cultural metropolis. A major project currently under way in Hong Kong is the construction of a 40-hectare West Kowloon Cultural District. The District will become a world-class arts hub with various theatres, galleries, an M+ museum of contemporary art and a park. The first major performing arts venue, a Xiqu or Chinese opera centre, is scheduled for

commissioning in 2016. Hong Kong's reputation for arts and culture is gaining more international attention. For example, the inaugural Art Basel Hong Kong last year was an astounding success and we expect this year's exhibition in May to be equally well received.

Ladies and gentlemen, I do hope that you will be able to find time to visit Hong Kong this year, whether for business or for pleasure. We would be delighted to see you at the Art Basel Hong Kong in May or at any of the many international trade fairs held in Hong Kong every year. You may even have plans to celebrate Chinese New Year with us next week. After all, the Year of the Horse is said to be an auspicious time for travel, so please do make Hong Kong one of your must-visit destinations in the year ahead.

Thank you very much and best wishes to you all for a happy and prosperous Year of the Horse.

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