

Asia's world city

Progressive

Free

Stable

Opportunity

High Quality

December 2008

At a Glance

Global Financial Crisis

Hong Kong experienced strong and broad-based economic growth for almost five consecutive years up to the third quarter of 2008 when the global financial crisis began to affect the city's external sector and overall economy. However, with its sound fundamentals, strong regulatory framework, resilient workforce and the continued support of the Central Government, Hong Kong is well placed to weather the downturn.

A Task Force on Economic Challenges was set up in October 2008 to assess the impact of the financial crisis on Hong Kong and to propose specific options to address the challenges. To strengthen confidence in the city's banking system, the Exchange Fund has been used to guarantee the repayment of all customer deposits held in Authorised Institutions in Hong Kong. Moreover, a Contingent Bank Capital Facility has been established to make additional capital available to locally incorporated licensed banks when necessary. The two measures will remain in force until the end of 2010.

To help small and medium-sized enterprises (SMEs), the Government has pledged a maximum of \$100 billion (US\$12.8 billion) for a time-limited Special Loan Guarantee

Scheme under which it will provide up to 70 per cent guarantee to banks granting loans to SMEs. Moreover, the Government will stimulate domestic demand rather than cutting back on public spending. Some 60 000 jobs are expected to be created in 2009.

In December 2008, the Central Government unveiled a 14-point package to bolster the city's economy. A key measure makes Hong Kong one of the pilot areas for transforming renminbi into an international currency, with qualified enterprises becoming allowed to settle their cross-border trade in yuan. Additionally, the Individual Visit Scheme will be expanded to encourage more Mainland tourists to visit Hong Kong, the Mainland services sector will be further opened to Hong Kong service providers, infrastructure projects related to Hong Kong will be expedited, tax relief and supportive measures will be introduced for Hong Kong SMEs on the Mainland and economic co-operation between Hong Kong and the Pearl River Delta (PRD) will be stepped up.

'One Country, Two Systems' – A Successful Principle

- High degree of autonomy, with executive, legislative and judicial powers.
- Rule of law upheld by independent judiciary.
- Rights and freedoms of residents protected by law.
- Clean, efficient administration.
- Hong Kong people running Hong Kong – laws, currency, taxation system and way of life separate from the Mainland.

- Separate immigration, customs, police and anti-corruption authorities and jurisdictions.
- Hong Kong continues to participate in international forums in its own right (e.g. World Trade Organization, Asia-Pacific Economic Cooperation, World Customs Organization, Financial Action Task Force).
- Chinese and English are official languages.

World's Freest Economy

- One of the world's most open, externally oriented economies – trade-to-GDP ratio of 404 per cent.
- Free flow of capital, free trade, free market.
- No investment restrictions – foreign investment migrants welcome.
- No foreign exchange controls.
- Rated by Heritage Foundation as world's freest economy annually since 1995 and by the Cato and Fraser Institutes as world's most economically free jurisdiction every year since 1970.
- About 270 000 small and medium-sized enterprises account for over 98 per cent of businesses and nearly 50 per cent of private sector workforce.

International Business Hub

- Level playing field – local and international companies compete on an equal footing.
- Prime location at the mouth of PRD.
- International aviation and maritime centre.
- Regional corporate hub – Hong Kong was host to 6 612 overseas and Mainland companies as at June 2008, representing an increase of 2.7 per cent over 2007. Of this total, 3 882 serve as regional headquarters or offices.



- Second largest foreign direct investment recipient in Asia – US\$54.3 billion invested in 2007.
- Regional arbitration centre – handles more cases than Japan, Singapore, Malaysia and Korea combined.
- Regional communications and broadcasting hub – world-class telecommunications infrastructure.
- Free flow of information – newspapers, magazines, Internet freely available.
- At end-November 2008, 68 of world's 100 largest banks have operations in Hong Kong.

Tapping into Mainland Opportunities

- The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), in operation since 2004, is a landmark free-trade pact that allows tariff-free entry of all Hong Kong goods to the Mainland, bringing new business opportunities to the Mainland, Hong Kong as well as foreign investors.
- Further CEPA liberalisation measures have been introduced every year. From January 1, 2009, Hong Kong services suppliers in 40 sectors enjoy preferential market access.
- Hong Kong is the largest external investor in the Mainland, accounting for US\$307 billion, or 40 per cent of all cumulative realised direct investment at end-2007.
- Some 60 000 Hong Kong-invested enterprises employ around 9.6 million people in Guangdong Province.
- Huge pool of entrepreneurs and professionals with decades of experience in China.
- Hong Kong is a major source of funding for Mainland enterprises.
- Handles about one-fifth of the Mainland's foreign trade.

Building for a Progressive Future

- Hong Kong's rail network will expand from 210 km at present to over 260 km by 2015. Currently six new rail lines are under construction or active planning – the Kowloon Southern Link, the West Island Line, the Kwun Tong Line Extension, the South Island Line, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Sha Tin to Central Link.
- New roads and railways have enhanced connections with the Mainland, especially the PRD, with further improvements underway.
- Hong Kong-Zhuhai-Macao Bridge – construction is expected to commence no later than 2010.
- Hong Kong Convention and Exhibition Centre – new extension to open in 2009, resulting in a total of 90 000 square metres of rentable space.
- West Kowloon Cultural District – a major cultural hub covering about 40 hectares with planned costs of HK\$21.6 billion (US\$2.8 billion), to be developed on a prime waterfront site in West Kowloon.
- Kai Tak Cruise Terminal Development Plan – first berth expected to be operational by 2013.

Low Tax System

- From 2008-09, maximum salaries tax rate lowered to 15 per cent.
- Corporation profits tax rate lowered to 16.5 per cent.
- No value added or sales tax.
- No capital gains tax.
- No withholding tax on dividends and interest; no estate duty.
- No global taxation. Only Hong Kong-sourced income is taxable.

A Vibrant, Safe and Stable City

- Convenient, compact, cosmopolitan city with stunning harbour, skyline and parkland vistas (about 40 per cent of Hong

Kong's total land area is country park).

- World-class sports events throughout the year – rugby, golf, cricket, tennis, table-tennis, squash, sailing, badminton.
- World-class cultural performances, art exhibitions, drama festivals, street carnivals, arts festivals – all contributing to a rich cultural life.
- Second Michelin city in Asia, with a wide variety of world cuisine and some of the world's best restaurants.
- A total of 144 international schools offering more than 10 curricula (including US, UK, Australian, Canadian, French, German, Japanese, Singaporean, Korean and the International Baccalaureate.).
- One of the world's safest large cities – a law-abiding community and a highly trained, professional police force.

Social Contract

- World-class medical and welfare system.
- 12 years of free education.
- Over 95 per cent of youngsters go on to senior secondary (or equivalent vocational) education.
- Participation in post-secondary education has increased to over 60 per cent.
- World-class universities – three ranked in world top 60.
- Social security safety net for less privileged, elderly and unemployed.

Performance in 2007

- Asia's third-largest stock market, world's seventh largest.
- Container throughput of 24 million TEUs – world's third busiest container port.
- World's busiest international air cargo hub – handled 3.7 million tonnes of cargo.
- Tourist arrivals reached 28 million.
- The world's 12th largest trading economy. (International Trade Statistics 2008, World Trade Organization)

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