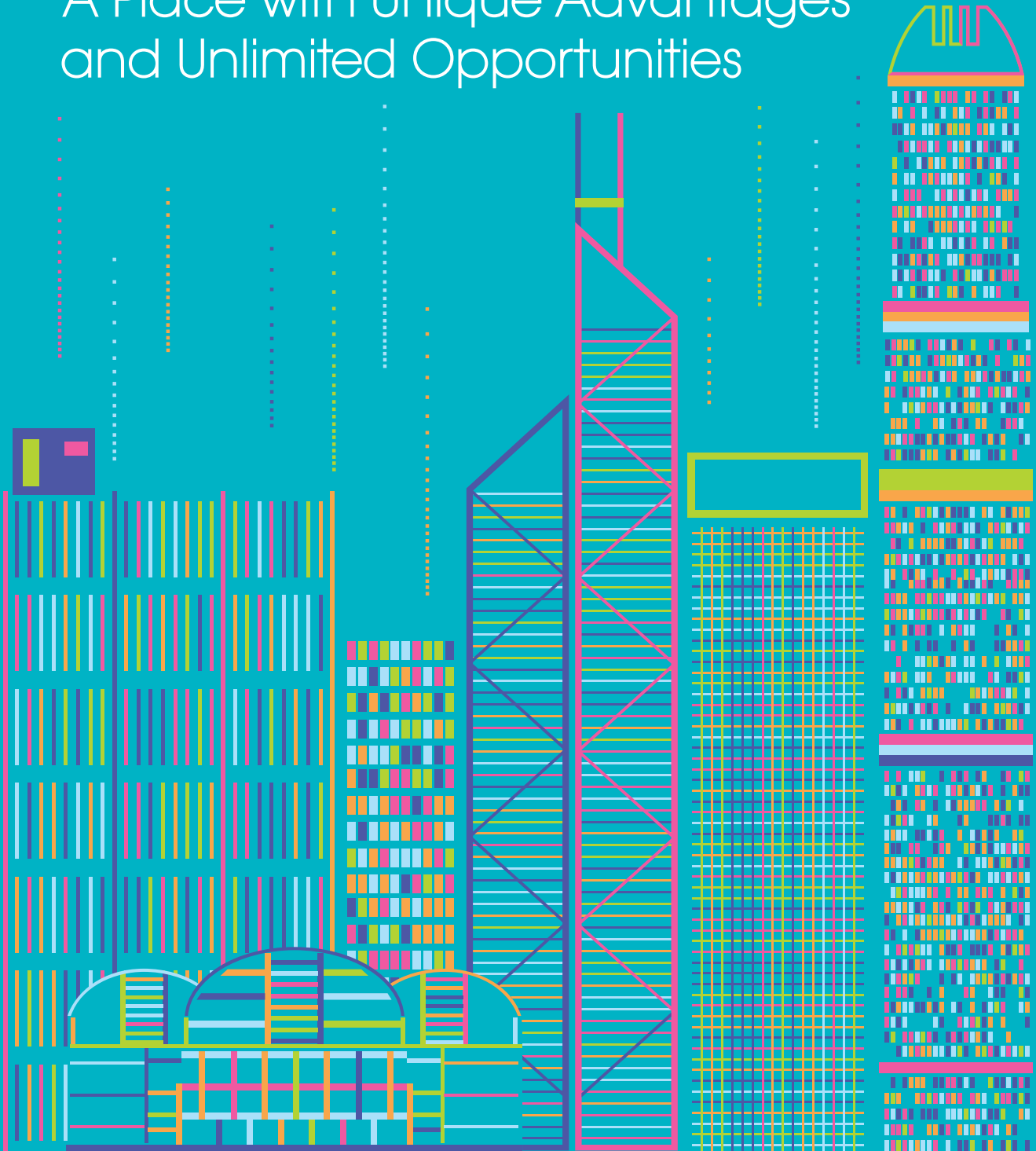




Hong Kong Special Administrative Region
of the People's Republic of China

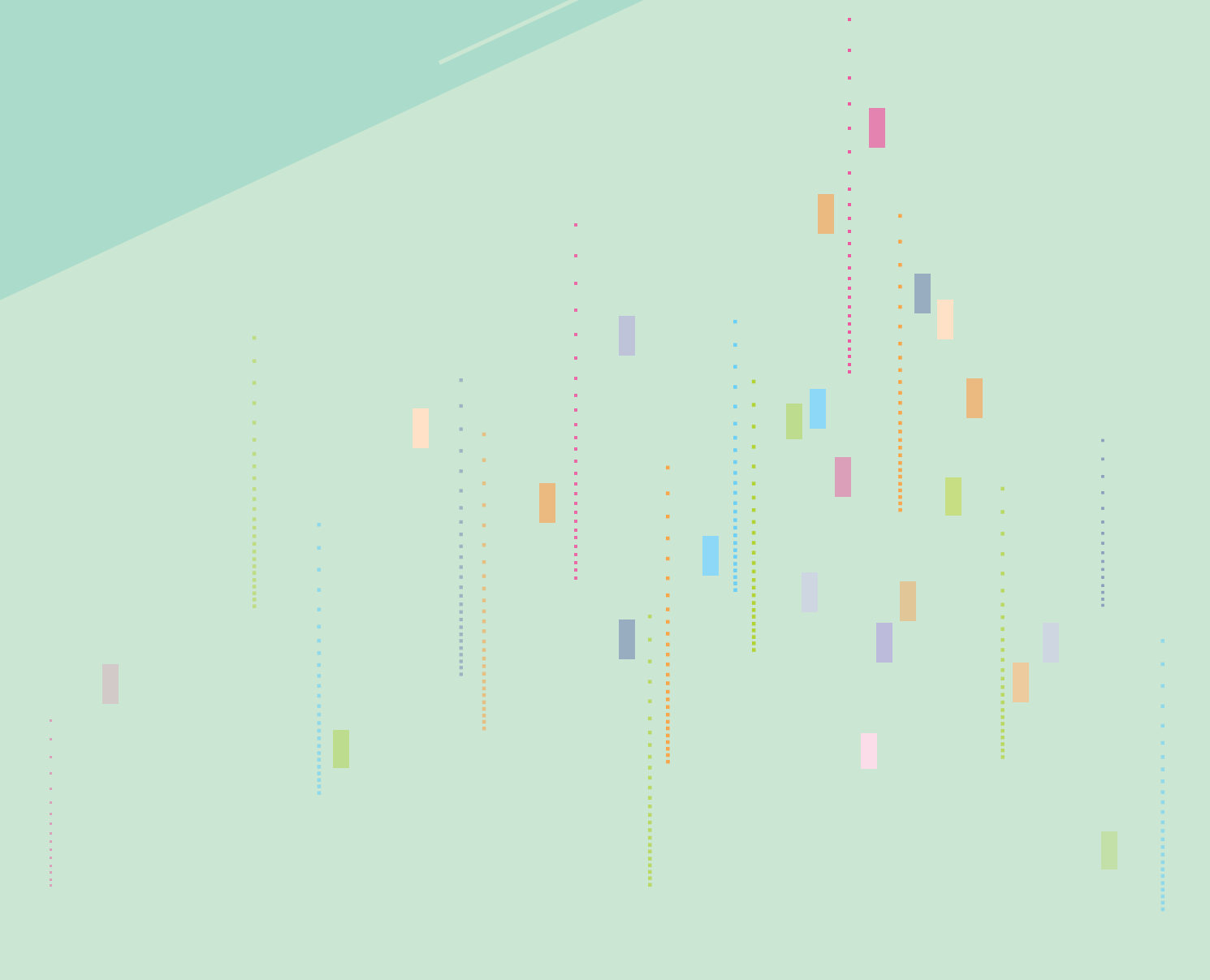
Report on Hong Kong's Business Environment

A Place with Unique Advantages and Unlimited Opportunities



Report on Hong Kong's Business Environment

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CONTENTS

01 INTRODUCTION

03 CHAPTER 1 **Black-clad violence and the US' strategy of suppressing China brought enormous negative impact on the economy and business environment of Hong Kong**

05 Section 1 **Black-clad violence dealt a severe blow to the Hong Kong economy**

07 Section 2 **Black-clad violence caused severe damage to Hong Kong's business environment and investment prospects**

08

- Severely endangered national security, trampled on Hong Kong's rule of law and undermined public order

08 Severely challenged the baseline of "One Country, Two Systems" and endangered national security

09 Trampled on Hong Kong's rule of law

10 Disrupted public order and endangered public safety

12

- Raised business sectors' concern over Hong Kong's business outlook

14

- Affected financial stability and security

14

- Affected international credit rating agencies' evaluation of Hong Kong

15 Section 3 **The US' strategy of suppressing China caused serious disruption to Hong Kong**

16

- Incited and supported the opposition and black-clad violence to wreak havoc

17

- Imposed blatantly unreasonable sanctions on officials of the Central Government and the HKSAR Government

18

- Took unreasonable unilateral actions on differential treatment for Hong Kong

20

- Put pressure on multinational enterprises operating in Hong Kong and maliciously spread rumours and slanders on Hong Kong's business environment

21 CHAPTER 2 **The formulation and the implementation of the Hong Kong National Security Law and the principle of "patriots administering Hong Kong" have effectively restored social stability and safeguarded the business environment in Hong Kong**

23 Section 1 **Society stabilises and returns to rationality**

24

- The NSL has restored stability in Hong Kong society

25

- Amendment and improvement of Hong Kong's electoral system enhance the effectiveness of the HKSAR Government's governance

26

- The restoration of social order allows the HKSAR Government to effectively implement epidemic prevention and control measures and revitalise the economy

27 Section 2 **Financial market operates smoothly and is on a positive trend**

29 Section 3 **International organisations and the business community positively see Hong Kong's business environment**

30

- International organisations give clear recognition to Hong Kong's business environment and financial system

30

- Local chambers of commerce welcome and support the implementation of the NSL

31

- Foreign chambers of commerce in Hong Kong remain confident about Hong Kong's business environment

32

- Hong Kong's financial sector continues to actively expand its local and Mainland business

33 Section 4 **Attempts of the US and other Western countries to undermine Hong Kong's stability and restrain Hong Kong's economic development will not succeed**



CHAPTER 3 The new Hong Kong back on track has outstanding advantages in business environment with unlimited room for future development

Section 1 Hong Kong's inherent strengths remain intact

- Hong Kong's unique advantages under "One Country, Two Systems"
- Free port policy
- An international city
- A safe and quality metropolitan environment with a blend of urban and rural lifestyle
- Robust financial system and free flow of capital
- Extensive participation in international economic and trade organisations
- Well-developed infrastructure and digital facilities
- A wealth of talent

Section 2 Sound and robust rule of law and judicial independence reinforced

- Sound and robust legal system
- Globally recognised rule of law and judicial independence
- World-renowned dispute avoidance and resolution services

Section 3 Opportunities from leveraging the support from the Motherland while engaging the world

- International Financial Centre
- International Trade, Aviation and Transportation Centre
- International I&T Hub and Regional Intellectual Property Trading Centre
- Centre for International Legal and Dispute Resolution Services in the Asia-Pacific Region
- Hub for Arts and Cultural Exchange between China and the Rest of the World

CONCLUDING REMARKS



INTRODUCTION



Since the establishment of the Hong Kong Special Administrative Region of the People's Republic of China (HKSAR), “One Country, Two Systems” has been the cornerstone of our economic development. Under “One Country, Two Systems”, Hong Kong has always maintained its institutional strengths which are favourable for doing business. These strengths, coupled with other advantages which are conducive to competitiveness, as well as our positioning as a city leveraging the support from the Motherland while engaging the world, have made Hong Kong an international centre for finance, commerce and trade, a home for corporate headquarters, as well as a major hub of investment, transportation and logistics.

Hong Kong's institutional strengths under “One Country, Two Systems” are particularly notable. The Basic Law stipulates that the HKSAR is a separate customs territory, and Hong Kong adopts zero-tariff policy with no non-tariff barriers for protecting domestic industries. Hong Kong is also known for its simple tax regime with low tax rates. The Government and society are clean and efficient, with robust and highly transparent regulatory regimes. Besides, the HKSAR Government is committed to providing a level playing field for all businesses, alongside free flows of goods, capital, talent and information. Hong Kong also enjoys independent judicial power, including that of final adjudication. The judicial system in Hong Kong has always been handling cases impartially and professionally.

Furthermore, Hong Kong is equipped with world-class infrastructure, constituting highly efficient local and regional transportation networks and advanced air and sea freight systems, as well as digital and telecommunications facilities which are among the best in the world. These facilities enable efficient flows of people, goods and information between Hong Kong and the rest of the world, and enhance our commercial connectivity with various regions. Besides, thanks to a sound education system and top performing local universities, Hong Kong has a well-educated labour force and professionals of international standards. On top of all these, the metropolitan culture and a mix of dynamic and serene living environment in Hong Kong also



help attract world-class talent from all over the world to pursue their careers here. All these further strengthen Hong Kong's position as an international financial centre, an international centre for commerce and trade, and an investment, transportation and logistics hub. Hong Kong's business environment and economic competitiveness are highly regarded by renowned international research institutions.

Our superb geographical location also enables us to grasp the opportunities arising from the shift of global economic gravity from West to East, particularly those related to our country's rapid economic development. Under "One Country, Two Systems", our country has granted us Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and other facilitating measures, making Hong Kong an irreplaceable gateway connecting our country and the rest of the world, and enabling us to actively participate in the economic development of our country.

Yet, the Hong Kong economy was once hit by the social turmoil in 2019, the outbreak of the COVID-19 pandemic since 2020 and the political suppression from Western countries led by the United States (US). As the local epidemic situation in Hong Kong stabilises and the National 14th Five-Year Plan brings countless new opportunities to Hong Kong, it is opportune time to review our business environment again so as to make timely preparation to drive the Hong Kong economy to a higher level by riding on our country's rapid development.



CHAPTER 1





Black-clad violence and the US' strategy of suppressing China brought enormous negative impact on the economy and business environment of Hong Kong

The series of violent acts that occurred from June 2019 to early 2020 as a result of the proposed legislative amendments to the Fugitive Offenders Ordinance not only dealt a severe blow to the society and economy of Hong Kong, but also gravely upset Hong Kong's favourable business environment. This chapter reviews the impacts of black-clad violence on the economy and business environment.

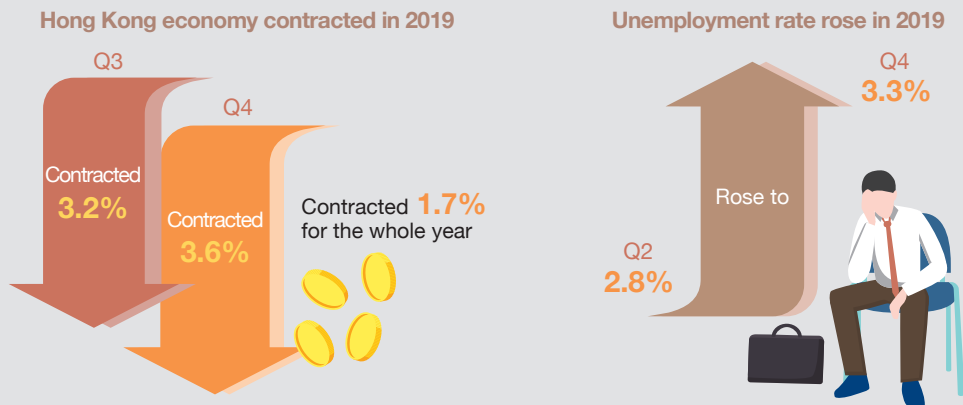


Section 1

Black-clad violence dealt a severe blow to the Hong Kong economy

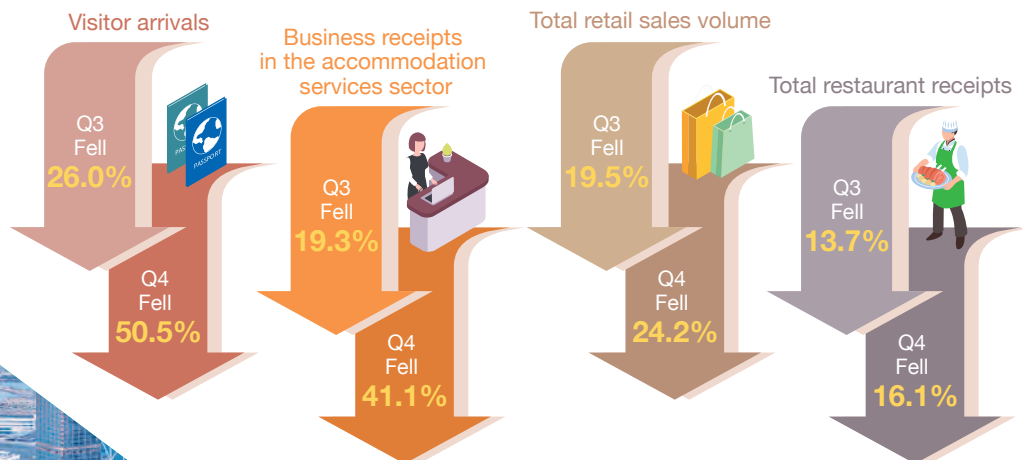


The large-scale violence and damage triggered by the proposed legislative amendments to the Fugitive Offenders Ordinance took a heavy toll on the economy, society and people's livelihood of Hong Kong. These violent acts caused the Hong Kong economy to plunge into a deep recession even before the outbreak of the COVID-19 pandemic. In the first half of 2019, **the Hong Kong economy**, affected by China-US trade tensions and the global economic slowdown, only recorded a modest year-on-year growth of 0.2%. The economy then worsened abruptly in the second half of the year because of black-clad violence, resulting in sharp contractions of 3.2% and 3.6% in the third and fourth quarters respectively. The economy contracted by 1.7% for the year as a whole, the first annual decline since the global financial crisis in 2009. **The labour market** was also under pressure, affecting the livelihood of the working class at large. The seasonally adjusted unemployment rate rose from 2.8% in the second quarter of 2019 to 3.3% in the fourth quarter.



Tourism and consumption-related economic activities and sectors were particularly hard hit. **Visitor arrivals** recorded a year-on-year increase of 10.9% in the second quarter of 2019, but turned abruptly to a 26.0% drop in the third quarter, and the decline further widened to 50.5% in the fourth quarter. With visitors deterred from coming to Hong Kong, business receipts in the **accommodation services sector** fell sharply by 19.3% year-on-year in the third quarter and plunged by 41.1% in the fourth quarter. As the number of visitors decreased and local consumption activities were severely disrupted, total **retail sales** volume fell by 19.5% year-on-year in the third quarter, and the fall widened to 24.2% in the fourth quarter. The business situation of the **restaurant sector** was also austere, with total restaurant receipts declining by 13.7% and 16.1% year-on-year in real terms in the third and fourth quarters respectively, causing many restaurants to close down or lay off staff.

Tourism- and consumption-related economic activities and sectors were hard hit in the second half of 2019





Section 2

Black-clad violence caused severe damage to Hong Kong's business environment and investment prospects

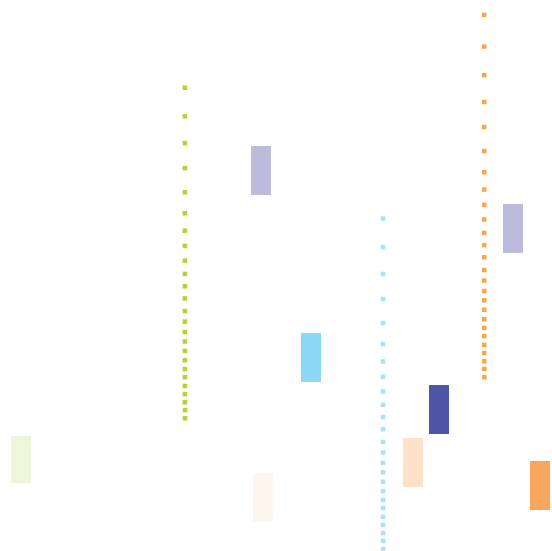


Severely endangered national security, trampled on Hong Kong’s rule of law and undermined public order

Severely challenged the baseline of “One Country, Two Systems” and endangered national security

Since June 2019, there had been a spate of illegal acts advocating “Hong Kong independence” and violence in Hong Kong. Scores of saboteurs attempted “mutual destruction”. Shameless individuals willingly served as puppets and foreign proxies, begging foreign countries to sanction the nation and the HKSAR. Some even plotted subversion against the State power, repeatedly insulting the national flag, waving the “dragon and lion” flag, and chanting slogans of “Hong Kong independence”, thereby posing grave threat to national security. The black-clad violence in 2019 **severely challenged the principle and baseline of “One Country, Two Systems” and endangered national security.** Among others –

- Saboteurs maliciously besieged and stormed the Liaison Office of the Central People’s Government in the Hong Kong Special Administrative Region (CPGLO) and defaced the national emblem. As one of the offices set up by the Central Government in Hong Kong, the CPGLO has symbolic and real constitutional functions. Saboteurs storming the Central Government’s office in Hong Kong were blatantly challenging national sovereignty and the principle and baseline of “One Country, Two Systems”;
- Saboteurs stormed about 60 different buildings and facilities of the HKSAR Government, including the Central Government Offices and Police Headquarters (PHQ). While besieging the PHQ, saboteurs used mills barriers and sundries to block the entrance and exit gates, threw eggs at the PHQ, defaced the outer walls, etc.; and
- Saboteurs smashed the glass walls of the Legislative Council (LegCo) Complex with extreme violence, and forced entry into the building, wreaking havoc therein, including tearing down the solemn Chamber and damaging the HKSAR emblem, leaving the Complex in tatters and ruins.



Trampled on Hong Kong's rule of law

The rule of law and an independent judiciary, which are held dear by Hong Kong people, are constitutionally protected under the Basic Law. The Basic Law also preserves the common law system, which is long-established and familiar to the international business community, and allows the HKSAR to enjoy independent judicial power, including that of final adjudication. However, the massive illegal acts of violence during the riots weakened the law-abiding awareness of the community and seriously undermined the foundation of Hong Kong's rule of law. When black-clad violence first emerged, rioters ruined and hijacked peaceful demonstrations by illegal acts including blocking roads, charging police cordon lines and besieging the Central Government Offices and LegCo Complex. Later on, rioters adopted extreme methods to obstruct major transportation hubs in various districts, and harassed police and judicial officers by doxxing and bullied family members of police officers, making it impossible for members of the public to live a normal life. What was even more worrying was that some people in the community used various excuses to beautify or legitimise rioters' illegal acts, undermining economic and social order by such extreme acts as "shopping with you" and "lunching with you". The black-clad violence in 2019 **severely trampled on Hong Kong's rule of law**. Among others –

- The crime situation in the second half of 2019 deteriorated abruptly, completely reversing the downward trend which had persisted for many years. In the midst of the black-clad violence, crimes of various nature surged. Crimes with notable increase included those directly related to the black-clad violence (including arson, criminal damage, possession of unlawful instrument and possession of offensive weapons) and those committed by criminals who took advantage of the thinning out of the Police's crime prevention work and resources (such as robbery and burglary); and
- Rioters damaged a number of magistrates' courts, threw petrol bombs and set fire outside the High Court and the Court of Final Appeal, and damaged government property, seriously challenging the spirit of the rule of law in Hong Kong and directly attacking the independent judicial authority of the HKSAR, which was more insulting and defiant to the rule of law than anything else.



Disrupted public order and endangered public safety

Before the onset of the black-clad violence, Hong Kong was among the safest cities in the world. Yet during the period when Hong Kong was beset by violent acts, social peace was seriously undermined, with public order and safety unprecedentedly threatened and the daily life of members of the public greatly affected. Rioters harassed and attacked police officers and ordinary citizens holding different political views with various kinds of objects and lethal weapons, such as high-powered laser pointers which may cause blindness, sling shots and catapults for launching a variety of projectiles, sharp or sharpened objects, bricks and inflammable liquid bombs, thereby causing injuries of various degrees to law enforcement officers and ordinary citizens. Rioters wantonly vandalised public facilities, railway stations, shops, restaurants and banks. **The violent acts seen in 2019 were miserably lawless, seriously threatening personal safety and jeopardising freedom of speech.** Among others –

- Rioters took the law into their own hands and cases of vigilantism occurred from time to time. A Putonghua-speaking bank employee was punched by rioters for saying “we are all Chinese” outside his office. A number of masked rioters assaulted passers-by on two separate occasions in Mong Kok, where a victim had his clothes, trousers and even underpants stripped from him in front of the public;
- There were over 5 500 doxxing cases between 2019 and 2020. A lot of people (including police officers, judges, lawyers, LegCo Members, as well as their spouse and children) were doxxed with their personal data made public. Doxxing is a way of creating white terror. Some of those doxxed were worried after being threatened that their children would be “picked up from school”; judges were doxxed and received death threats upon refusing bail applications from suspects; and witnesses were afraid of testifying in court as they were being doxxed and harassed;
- Over 2 800 casualties (including citizens and police officers) related to public gatherings were reported; over 600 police officers were injured during operations;
- A member of the public who spoke up against rioters suffered 40% burns to his body after being poured with inflammable liquid and set ablaze;
- An innocent 70-year-old cleaner died after being hit in the head by a brick hurled by rioters;
- A large group of rioters unlawfully assembled at the Hong Kong International Airport, paralysing airport operation. They detained, harassed and assaulted a visitor and a Mainland journalist; and
- Rioters seized control of the Hong Kong Polytechnic University and the neighbouring areas (including a major footbridge above the busiest arterial road tunnel in Hong Kong) for days, setting fire to the footbridge and toll booths, hurling petrol bombs, firing rocks and metal objects from high-tension catapults. Rioters also damaged the campus extensively, and made and stored hundreds or thousands of petrol bombs on the campus.

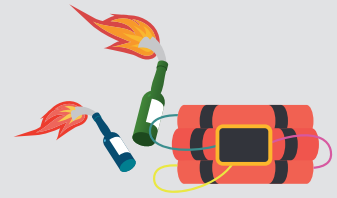


There was not a single day without violence, the level and extensiveness of which were extremely alarming –

- Rioters hurled over 5 000 petrol bombs, and the Police seized over 10 000 petrol bombs;
- The Police seized large quantities of explosives that were commonly used in terrorist attacks (including Triacetone Triperoxide (TATP), Hexamethylene Triperoxide Diamine (HMTD) and Radio-controlled Improvised Explosive Devices (RCIEDs)⁽¹⁾) and six genuine firearms (including one AR-15 rifle) with very large quantities of ammunitions;
- Some 22 000 square metres of paving blocks of footpaths were illegally removed for the purpose of hurling at targets. The amount of paving blocks removed were enough to fill two Union Squares in San Francisco or one Trafalgar Square in London;
- Some 60 kilometres of railings were dismantled, which was the distance between the Narita Airport and Tokyo or a round-trip from Heathrow Airport to London city centre;
- A total of 740 traffic lights, 1 521 traffic bollards and 87 traffic signs were damaged; and
- Of the 93 MTR stations and 68 light rail stations in Hong Kong, over 90% (85 MTR stations and 62 light rail stations) were paralysed by destruction, with numerous facilities repeatedly damaged.

In the midst of the black-clad violence, rioters frequently attacked, doxxed, harassed and bullied citizens holding views different from theirs, and maliciously vandalising and complaining to government departments those restaurants and shops (such as Maxim’s Bakery and restaurants, and Bestmart 360’s snack shops) that did not agree with their stance. The general public lived in fear and lost their freedom of speech and expression. In the process of subduing rioters, the Hong Kong Police Force exercised restraint: there had been no death resulting from enforcement actions in the months-long operations.

(1) Terrorist attacks in other countries involving the use of such explosives and bombs include the 2015 Paris Attacks, the 2016 Brussels Airport Attacks (170 dead), the New York and New Jersey Bombings in 2016 (34 injured) and the attack carried out by the Irish Republican Army.



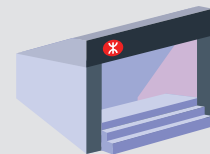
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85 MTR stations and
62 light rail stations were paralysed

Raised business sectors' concern over Hong Kong's business outlook

Local chambers of commerce unanimously considered that the violent incidents in 2019 had directly impacted on the operations of enterprises and small businesses, with the retail, catering and tourism sectors bearing the brunt. Many shops and enterprises suspected by rioters to be slightly supportive of the HKSAR Government or the Police became the targets of attack and suffered devastating damage and enormous losses. Thousands of shops were forced to suspend operations or even went out of business as a result.

Major foreign chambers of commerce were also pessimistic about Hong Kong's situation. Amid the escalating street violence, businesspersons were increasingly concerned about personal safety, such as worrying of being attacked or bullied for what they said. Visitors were deterred, investment and local consumption sentiments dipped, and revenues of some shops plummeted by more than half, directly affecting foreign investment in Hong Kong.

The impact on enterprises caused by successive violent acts of rioters, aggravated by the uncertainties cast by China-US trade tensions, once surfaced. Chambers of commerce generally considered that if the wave of violent incidents was to continue, Hong Kong's hospitable image in the international community and reputation as an international financial centre would be severely tarnished and overseas investors' confidence in Hong Kong would be undermined, ruining the economic prosperity achieved from the toil of generations of Hong Kong people.





Affected financial stability and security

The black-clad violence seriously affected the normal operation of Hong Kong's financial institutions and posed definite risks to financial stability and security.

When street violence was rampant, rioters targeted Chinese-funded banks and certain international banks, severely damaging their branches and forcing some to shut down. The banking industry generally expressed concerns about the personal safety of employees and customers of banks, and had to strengthen their security measures in a comprehensive manner. Banks suffered huge direct economic losses, and enterprises and individual customers that need banking services also faced considerable inconvenience. At the peak of the black-clad violence, nearly half of a certain bank's branches and about 20% of its teller machines suffered varying degrees of damage.

The social turmoil seriously undermined Hong Kong's image as a safe city that had taken years to build. Many multinational financial institutions that set up regional headquarters in Hong Kong were forced to spend a lot of efforts and resources on drawing up contingency plans. In August 2019, the operation of the Hong Kong International Airport was halted and flights were completely suspended due to protests. Many financial institutions worried that they would not be able to quickly deploy their staff in Hong Kong to reserve centres in other places when necessary, and hence once asked some of the regional headquarters to transfer their functions to other places. All these weakened the competitiveness of Hong Kong as a financial centre.

Social instability and timidity of the people became a breeding ground for rumours, and the financial market is particularly sensitive in this respect. In the midst of the social turmoil, there were rumours circulating on social platforms that Hong Kong would implement capital controls, and some saboteurs even instigated attack on the Linked Exchange Rate System and banking operation. Fortunately, the Hong Kong Monetary Authority (HKMA) provided timely and firm clarifications, which stabilised the market and confidence of the public in Hong Kong's financial system. Otherwise, these rumours could have caused incalculable damage to financial security.

Affected international credit rating agencies' evaluation of Hong Kong

Riots also caused severe negative impacts on Hong Kong's reputation and competitiveness. For instance, two international credit rating agencies downgraded Hong Kong's credit rating in January and April 2020 separately on the ground that social turmoil had jeopardised the place's business environment and political stability.



Section 3

The US' strategy of suppressing China caused serious disruption to Hong Kong



The world is undergoing a once-in-a-century transformation. In the past few decades, there has been a shift of global economic gravity from West to East. As the size of the Mainland's economy continued to grow, economic and trade relations between our country and other economies continued to deepen, and our country's influence on the global economy further increased. With the change in the global economic landscape, the US is anxious about the rise of China. The US even uses Hong Kong as a pawn to suppress China's development and takes unjustifiable and extreme measures on issues related to Hong Kong, casting a shadow on Hong Kong's business environment.

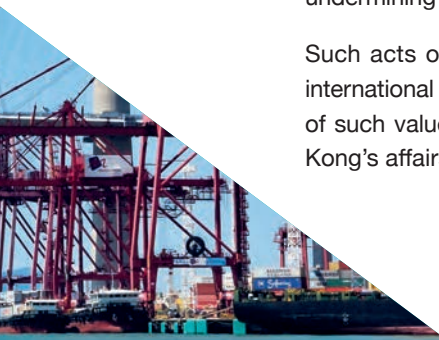
Incited and supported the opposition and black-clad violence to wreak havoc

During the riots in 2019 and 2020, Hong Kong was besieged by widespread and escalating violence. The emergence of incidents involving explosives and firearms posed risks of local terrorism, seriously jeopardising public safety. In addition, supported by foreign or external elements, organisations advocating "Hong Kong independence" and "self-determination" incited hatred among protesters, especially young people, against the Central Government and the HKSAR Government, attempting to subvert the authority and governance of the Government. These are indisputable facts.

In the midst of the black-clad violence, rioters wantonly blocked roads, severely vandalised shops, the MTR and other public facilities, hurled a huge number of petrol bombs, set fires, violently stormed and trashed the Central Government's office in Hong Kong and LegCo Complex, damaged Government premises, and wilfully assaulted people holding views different from theirs. Some politicians of the US, out of their own political motives, beautified the violent acts of rioters as "peaceful demonstrations". They even spoke in support of these suspected unlawful acts. During the period of black-clad violence, some US politicians turned a blind eye to the intensive and extensive damage caused by these riots to Hong Kong society, glamorising and praising the illegal acts of these rioters. A US senator even dressed in black and appeared on the streets of Hong Kong to show support for the malicious acts of rioters. Confounding right and wrong, he played deaf and dumb and claimed that he "did not see any violence". Yet, when a similar scene unfolded at the US Capitol in January this year, the US administration immediately condemned it as an "insurrection" and categorised the protesters as rioters and extremists. This fully reflected the double standards and hypocrisy of the US administration.

Besides, the US Government and Congress introduced measures and passed various acts to suppress Hong Kong's economic development under the pretext of human rights and freedoms, grossly interfering in Hong Kong's affairs, seriously threatening national sovereignty and severely undermining Hong Kong's rule of law, prosperity and stability.

Such acts of the US violated the globally accepted international law and the basic norms of international relations, i.e. non-interference in the internal affairs of another state. Under the pretext of such values as human rights, freedoms and democracy, the US hideously interfered in Hong Kong's affairs as well as the nation's internal affairs.



Imposed blatantly unreasonable sanctions on officials of the Central Government and the HKSAR Government



Since the implementation of the Hong Kong National Security Law (NSL), the US Government and Congress have been smearing it under the pretext of human rights, freedoms and democracy, alleging that the law has violated the Sino-British Joint Declaration and the Basic Law. They also imposed the so-called “sanctions” on officials of the Central Government and the HKSAR Government by means of various laws and executive orders, in an attempt to undermine the determination of the HKSAR Government in safeguarding national security and implementing the NSL.

The US administration signed the Hong Kong Autonomy Act on 14 July 2020 and introduced a series of measures under The President’s Executive Order on Hong Kong Normalization (the Executive Order), imposing the so-called “sanctions” on those responsible for or involved in the enactment, adoption or implementation of the NSL. The US Department of State and Department of the Treasury subsequently updated the “sanctions” list under the Executive Order for a number of times, adding therein officials of the Central People’s Government and the HKSAR Government.

The unreasonable bullying acts committed by the US Government against the officials of the Central People’s Government and the HKSAR Government who safeguard national security have seriously undermined Hong Kong-US relations at various levels, and have been resented by many people in Hong Kong and the international community.

As mentioned in the statements of the Ministry of Foreign Affairs on many occasions, the moves of the US Government seriously violate international law and the basic norms of international relations, and constitute gross interference in Hong Kong’s affairs and the country’s internal affairs. The US Government’s claim of “standing with Hong Kong people” is in fact “standing with rioters and local terrorists of Hong Kong” – this has not only become a joke to the informed, but also showed that the US Government has gone completely bankrupt of political ethics. It has become an international dictator in ideology, and genuinely the biggest threat to democracy and peace of the world. The HKSAR Government will fully support the Central Government in adopting counter-measures and will not allow US hegemony to succeed.

Took unreasonable unilateral actions on differential treatment for Hong Kong

The Central Government, through the Basic Law, fully safeguards Hong Kong's strengths under "One Country, Two Systems" and our special status, such as that of a separate customs territory. This has been well recognised and appreciated by the international community, and has provided various forms of facilitation for multinational companies and individuals exploring development opportunities in Hong Kong. Yet, the US, through absurd acts including the suspension of Hong Kong's differential treatment from the Mainland in selected areas, undermines Hong Kong's prosperity and stability. In terms of trade, since November 2020, the US has required that the origin of products imported from Hong Kong should no longer be marked as "Hong Kong" and must be marked as "China". This measure disregards Hong Kong's status as a separate customs territory, completely violates the World Trade Organization (WTO) rules, and confuses the market. The HKSAR Government conducted consultations with the US in accordance with the WTO rules, strongly objected to the relevant measure and requested the US to withdraw it. Disappointingly, the US did not provide any substantive response. Hong Kong is seeking a ruling in accordance with the WTO Dispute Settlement Mechanism to safeguard "One Country, Two Systems" and Hong Kong's interests. In addition, the US has tightened its control on exports of technological products to Hong Kong by revoking Hong Kong's separate treatment from the Mainland, such that some strategic commodities cannot be exported to Hong Kong by means of "licence exemption" and applications for individual licences are required to be made to the US. This has caused inconvenience to the trade in the two places and affected normal business activities. For maritime transport, with effect from

1 January 2021, the US terminated the Agreement for Double Taxation Relief (the Agreement) in respect of income from international shipping operations concluded between the US and Hong Kong in 1989. The Agreement provides for exemption from income tax, on a reciprocal basis, of income derived by residents/companies of the other side from international shipping operations. Termination of the Agreement would increase the operating costs of shipping companies and undermine the development of shipping business in both places.

On visas to the US, the US has cancelled the differential treatment for holders of HKSAR Passport. Holders of HKSAR Passport who wish to apply for emigration to the US for citizenship will no longer be given a quota separate from holders of Chinese Passport, nor will they be eligible for the Diversity Visa Lottery. Besides, the facilitation arrangement of visa-free access to Guam and the Northern Mariana Islands for holders of HKSAR Passport may be subject to change.

Separately, holders of HKSAR Passport have all along been required to apply for relevant visas for travelling to the US for leisure, study, employment, etc. In the past year, because of the pandemic, it was unclear as to whether the US has tightened up the issuance of visit and business visas, etc. to holders of HKSAR Passport. Anyway, the unilateral policy change by the US will no doubt bring inconvenience to HKSAR Passport holders travelling to the US in future. This may discourage Hong Kong residents from travelling to the US for leisure and business, thereby undermining business exchanges between residents of the two places.





Put pressure on multinational enterprises operating in Hong Kong and maliciously spread rumours and slanders on Hong Kong’s business environment

The US Department of State further issued a “business advisory” in July 2021, imposing pressure on multinational enterprises operating in Hong Kong and maliciously spreading rumours and slanders on Hong Kong’s business environment. The so-called “warning” is self-serving, biased and of double standards, and is made without regard to facts and evidence. In fact, Hong Kong offers a friendly and free trade environment, in which international enterprises, including those from the US, have benefitted. The American Chamber of Commerce in Hong Kong (AmCham) also considers that Hong Kong remains a critical and vibrant facilitator of trade and financial flows between China and the rest of the world. The President of AmCham remarked that the NSL did not impact commercial law, and that Hong Kong had excellent infrastructure and free flow of information and was still an ideal place for international companies to do business; thus she would definitely not advise companies to withdraw from the Hong Kong market. These comments are the best testimony to the merits of Hong Kong as a business place.

Some international think tanks and political and business organisations have also made unjustified and negative assessments on Hong Kong, possibly due to political considerations. Take the US-based Heritage Foundation (the Foundation) for example – while Hong Kong’s institutional strengths including fiscal health, business freedom, trade freedom and financial freedom remain intact under “One Country, Two Systems”, the Foundation has excluded, since 2021, Hong Kong from its Index of Economic Freedom merely using the superficial excuse that Hong Kong’s economic policies are “ultimately controlled from Beijing”, paying no regard to the fact that Hong Kong had previously been recognised by the Foundation as the freest economy for more than 20 years. As for other institutions, the Fraser Institute headquartered in Canada, for instance, despite giving Hong Kong top marks for economic freedom, has been making biased and unjustified criticisms regarding our country and the HKSAR, tarnishing Hong Kong’s international image.



CHAPTER 2

國家安全法

National Security Law



The formulation and the implementation of the Hong Kong National Security Law and the principle of “patriots administering Hong Kong” have effectively restored social stability and safeguarded the business environment in Hong Kong

保一國
Preserv



The social disturbance that lasted for more than 10 months threw Hong Kong residents into great fear. There emerged groups advocating “Hong Kong independence”, organising resistance against the governance of the Central Authorities, and even colluding with external elements to interfere in Hong Kong’s affairs. Some of these destabilising elements and radicals entered the political structure of the HKSAR through elections. They paralysed the operation of LegCo and obstructed policy implementation by the HKSAR Government in accordance with the law; supported violence outside LegCo; and orchestrated plans to gain dominance in LegCo in order to achieve “mutual destruction”, all of which seriously jeopardised Hong Kong’s constitutional order and challenged national sovereignty. In view of the grave situation, the Thirteenth National People’s Congress (NPC) adopted the decision on establishing and improving the legal system and enforcement mechanisms for the HKSAR to safeguard national security at its Third Session held on 28 May 2020, and entrusted its Standing Committee with the task of formulating the relevant laws. At its Twentieth Session held on 30 June 2020, the Standing Committee of the Thirteenth NPC passed the Law of the People’s Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region, which took effect on the same day. The NSL has reversed the chaotic situation that had beset Hong Kong for more than 10 months since June 2019. Violent acts have substantially reduced; external elements are observed to have diminished; and advocacy of “Hong Kong independence” continues to subside. With peace and stability restored in society and life returning to normal, our economy and people’s livelihood can thrive again (save for reasons relating to the pandemic). The positive effect of the NSL in safeguarding individual rights and freedoms of the Hong Kong residents has been obvious and indisputable. The chaos that erupted earlier on has exposed the loopholes and deficiencies in Hong Kong’s electoral system, which if not rectified in time will go directly against the principle of “patriots administering Hong Kong”; make it difficult to ensure the faithful implementation of the “One Country, Two Systems” principle; and seriously undermine the national sovereignty, security and development interests of our country as well as Hong Kong’s long-term prosperity and stability.



Section 1

Society stabilises and
returns to rationality

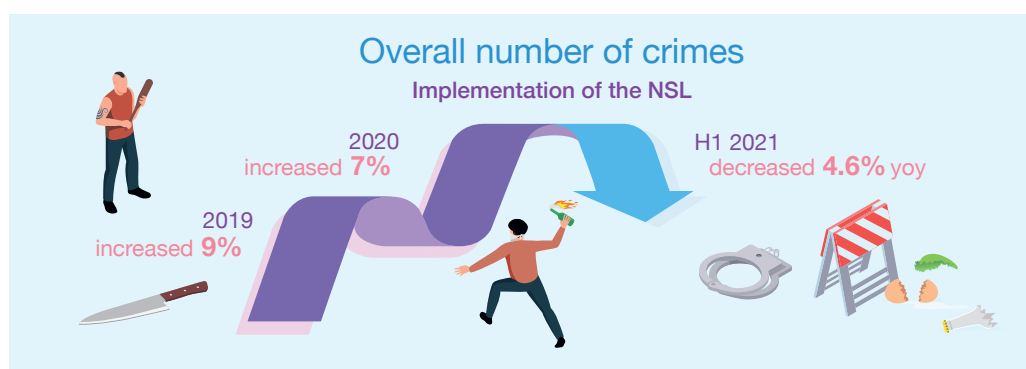


The NSL has restored stability in Hong Kong society

Regarding the establishment of a legal system to safeguard national security, the effect of the NSL is mainly reflected in two areas. First, since its return to the Motherland, the HKSAR has been unable to enact laws in accordance with Article 23 of the Basic Law, thus resulting in a loophole in the laws on safeguarding national security. The NSL has plugged this loophole by clearly stipulating the four types of offences endangering national security. The provision against “collusion with a foreign country or with external elements to endanger national security” helps prevent collusion between advocates of “Hong Kong independence” and external elements, and reduce the risk of external intervention. The provision against “subversion” helps reduce the risk of any person staging a “colour revolution” in an attempt to seize power. The provision against “secession” helps stop advocates of “Hong Kong independence” from committing secession. Moreover, the NSL has strengthened the legal framework against terrorist activities under the existing laws. It stipulates that a person who organises, plans, commits, participates in or threatens to commit terrorist activities causing grave harm to society with a view to coercing the Central People’s Government, the HKSAR Government or an international organisation or intimidating the public in order to pursue political agenda shall be guilty of an offence. The NSL has provided law enforcement agencies with the legal backing for handling terrorist activities endangering national security.

In the four decades or so before the onset of the black-clad violence, Hong Kong had been witnessing a steady decrease in crime figures. The trend, however, was completely disrupted and reversed by black-clad violence. The number of crimes recorded an increase of 9% in 2019 and continued to rise by about 7% in 2020. The overall crime rate has dropped since the implementation of the NSL. According to the latest figures, a total of 30 871 crime cases were recorded in the first half of 2021, a decrease of 1 474 cases or 4.6% when compared with 32 345 cases in the same period in 2020. A comparison between the latest crime figures and those recorded at the peak of the black-clad violence (i.e. second half of 2019) is as follows –

- Overall number of crimes decreased steadily by nearly 10%, from 34 007 to 30 871;
- Offences against public order reduced significantly by over 90%, from 942 to 28;
- Arson cases reduced significantly by nearly 80%, from 772 to 159;
- Robbery cases decreased by almost 60%, from 166 to 67; and
- Criminal damage cases decreased by about 40%, from 5 066 to 3 027.



Amendment and improvement of Hong Kong's electoral system enhance the effectiveness of the HKSAR Government's governance

In recent years, by exploiting the electoral system to worm their way into the political structure of the HKSAR, the anti-China forces made use of their status as public officers to obstruct and paralyse the functioning of the Government and even colluded with external elements to undermine Hong Kong's security and interests. The chaos earlier on has indicated that there were in fact loopholes and deficiencies in our electoral system. To ensure that the electoral system upholds the principle of "One Country, Two Systems", accords with the actual situation of the HKSAR, and hence the full implementation of the principle of "patriots administering Hong Kong", which is conducive to effectively safeguarding national sovereignty, security, and development interests of our country and maintaining Hong Kong's long-term prosperity and stability, the NPC made the Decision on Improving the Electoral System of the HKSAR on 11 March 2021 and authorised the Standing Committee of the NPC to amend Annex I on the Method for the Selection of the Chief Executive and Annex II on the Method for the Formation of LegCo and Its Voting Procedures to the Basic Law.

Subsequently on 30 March, the Standing Committee of the NPC adopted the amended Annexes I and II to the Basic Law, the key amendments of which include adjusting and enhancing the composition of the Election Committee and entrusting it with new functions to enhance balanced and orderly political participation of the Hong Kong community and ensure broader representation of the political structure, so as to better realise the overall and fundamental interests of Hong Kong society. Under the new system, the Election Committee comprises 1 500 members from five sectors. Apart from continuing to nominate and elect the Chief Executive, the Election Committee is also entrusted to elect a relatively larger proportion of legislators and to nominate all candidates for LegCo election. On the other hand, according to the newly amended Annex II to the Basic Law, the number of LegCo Members will increase from 70 to 90, of which 40 will be returned by the Election Committee constituency, 30 by functional constituencies and the remaining 20 by geographical constituencies through direct elections.

To implement the newly amended Annexes I and II to the Basic Law, the HKSAR Government gazetted the Improving Electoral System (Consolidated Amendments) Ordinance 2021, which was passed by LegCo and came into effect on 31 May 2021. Besides, the Public Offices (Candidacy and Taking Up Offices) (Miscellaneous Amendments) Ordinance 2021 was gazetted and came into effect on 21 May to accurately implement oath-taking requirements for public officers as stipulated in Article 104 of the Basic Law, its Interpretation made by the Standing Committee of the NPC and the NSL. This Ordinance enhances oath-taking requirements and provides for the handling mechanism and consequences of breach of oaths, thereby safeguarding the implementation of "patriots administering Hong Kong".

Improving the electoral system can put in place institutional safeguards to ensure full implementation of "patriots administering Hong Kong". With the principle of "patriots administering Hong Kong" put fully into practice and the full implementation of the NSL, the HKSAR Government will be able to resolve deep-rooted problems concerning social, livelihood and economic matters in a practical manner, and hence achieve good governance and maintain long-term social stability. Hong Kong can also provide investors with a better business and investment environment, and share development dividends from the National 14th Five-Year Plan and the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) development.



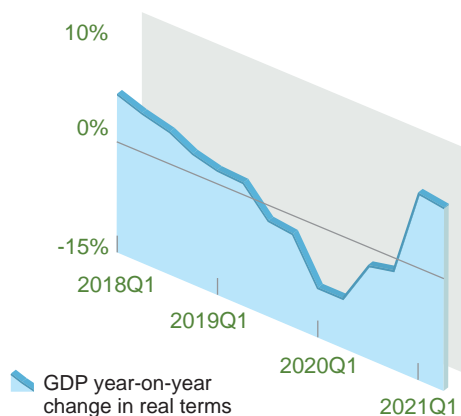
The restoration of social order allows the HKSAR Government to effectively implement epidemic prevention and control measures and revitalise the economy

In the face of an evolving epidemic situation, the HKSAR Government has implemented the anti-epidemic strategy of guarding against imported cases and resurgence of domestic infections, which is complemented by flexible and targeted measures. The HKSAR Government provides COVID-19 vaccination for people in Hong Kong free of charge for two COVID-19 vaccines listed for emergency use by the World Health Organization. Eligible expatriates in Hong Kong may also get vaccinated. With the concerted efforts of the HKSAR Government and the public, Hong Kong has successfully overcome wave after wave of the epidemic. Since May 2021, no local case has been recorded in Hong Kong for most of the time. The number of confirmed cases in Hong Kong accounts for less than 0.2% of the population, which is far lower than most of the advanced economies and other places in Asia.

The HKSAR Government launched support measures totalling over HK\$30 billion with the objective of “supporting enterprises and safeguarding jobs” to stimulate the economy as early as the second half of 2019. Entering 2020, the HKSAR Government swiftly set up the Anti-epidemic Fund. Taking into account a series of relief measures announced in the 2020-21 Budget, the sum deployed to help tide various sectors and citizens over the severe economic winter amounted to over HK\$300 billion. As social stability has been promptly restored after the implementation of the NSL, the HKSAR Government can focus more on revitalising the economy. In the 2020 Policy Address, the Chief Executive unveiled a number of measures to inject impetus into the Hong Kong economy, which included expediting the implementation of the GBA Cross-boundary Wealth Management Connect Scheme and the joint development of the Shenzhen/Hong Kong Innovation and Technology Co-operation Zone. The 2021-22 Budget further rolled out counter-cyclical measures totalling over HK\$120 billion to support the recovery of the Hong Kong economy from the pandemic. Among the various measures is the Consumption Voucher Scheme, under which electronic consumption vouchers worth HK\$5,000 are distributed to each eligible resident. It helps boost consumption sentiment and expedite the recovery of local retail, catering and other consumption-related sectors, and is hence crucial to the revival of the economy in the second half of this year.

Many of the relief measures are targeted at some 340 000 small and medium enterprises (SMEs) (which account for over 98% of Hong Kong’s enterprises). The HKSAR Government has introduced successive enhancements to various SME support measures and schemes, such as the Special 100% Loan Guarantee and principal moratorium and interest subsidies under the SME Financing Guarantee Scheme (SFGS), to reduce enterprises’ cash flow pressure. As at end-August 2021, the SFGS approved about 67 000 loan applications, involving an amount of HK\$167.7 billion and benefitting about 40 000 enterprises. Besides, the Hong Kong Export Credit Insurance Corporation introduced the 100% Credit Limit Top-Up Scheme in 2020 to help the export trade sector cope with increasing credit risks. As at end-August 2021, over 1 600 exporters were covered and more than 10 700 credit limits were uplifted, providing protection for shipments with a cumulative total value of over HK\$11 billion.

Hong Kong’s economic performance has been robust this year, with a distinct rebound of 7.8% year-on-year in the first half. Exports of goods were particularly strong. Domestic demand gained steam. Private consumption expenditure resumed year-on-year growth. Labour market conditions improved notably, with the unemployment rate falling rapidly from a 17-year high at the start of the year. At the same time, sentiment in the property market remained positive, with flat prices staying firm amid quite active trading. Prices of office, retail shop and flatted factory spaces have all recorded visible year-on-year increases recently. All these developments show that Hong Kong’s economic fundamentals are sound, and people are confident about the outlook of Hong Kong.





HKEX
香港交易所

7 May 2018 成交量 TURNOVER

證券市場 SECURITIES MARKET	\$96.87B	衍生產品市場 DERIVATIVES MARKET	976,965 合約 Contracts
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市場指數 MARKET INDICES

恆生指數 HANG SENG INDEX	29,994.26	+67.76 +0.23%
恆生中國企業指數 HSCEI	11,966.41	+75.79 +0.64%

指數期貨 (現貨月) INDEX FUTURES (SPOT MONTH)

恆生指數期貨 HANG SENG INDEX FUTURES	29,772.8
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股份代號 STOCK CODE 公司 STOCK NAME 收盤價 (\$) PRICE (\$) 變動 (%) CHANGE (%)

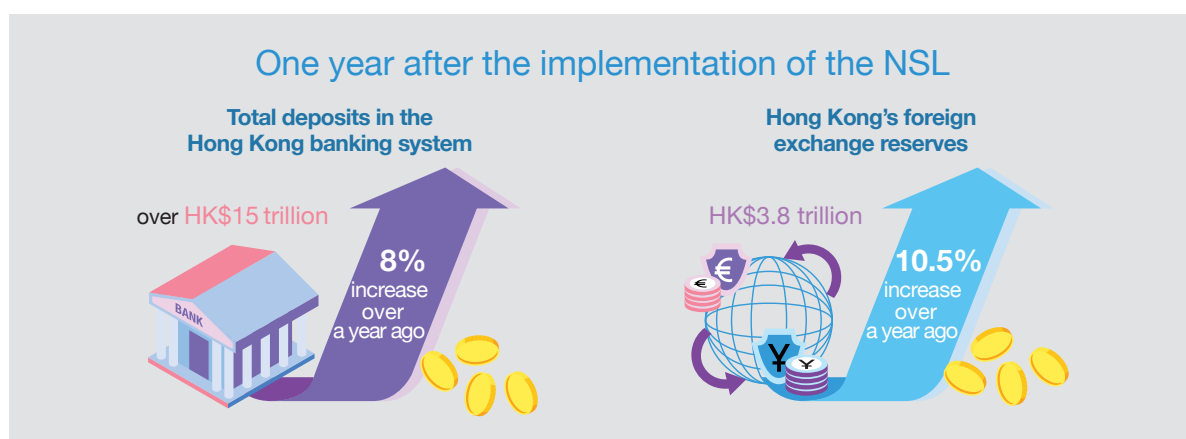
00001	長和 CKH HOLDINGS	90.950	+0.32%
00082	中環控股 CLP HOLDINGS	80.750	+0.12%
00003	香港中環煤氣 HK & CHINA GAS	10.000	+0.10%
00005	匯豐控股 HSBC HOLDINGS	150.000	+0.13%

Section 2

Financial market operates smoothly and is on a positive trend



Since the implementation of the NSL, Hong Kong's financial market has remained stable, and the Linked Exchange Rate System and various segments of the financial market have been functioning properly. The Hong Kong dollar exchange rate against the US dollar has remained on the strong side of the Convertibility Undertaking, reflecting the market's demand for and confidence in the Hong Kong dollar. Between last July, when the NSL was implemented, and last October, there were net capital inflows into the Hong Kong dollar market amounting to more than HK\$300 billion. As at end-June this year, total deposits in the Hong Kong banking system amounted to over HK\$15 trillion, up by almost 8% over last June (i.e. before the NSL took effect). Hong Kong's foreign exchange reserves also increased by 10.5% to HK\$3.8 trillion, equivalent to 1.8 times the Hong Kong dollar monetary base. Meanwhile, the banking system has remained robust, with the capital adequacy ratio and major banks' average liquidity coverage ratio at 19.8% and 154.0% respectively in the second quarter of 2021, both well above the international regulatory standards. Although the economy was hit by the pandemic, the classified loan ratio remained relatively low at around 0.9%.



The enactment of the NSL has restored social and political stability, and created a safe, stable and favourable business environment for enterprises from around the world. Investment sentiment has thus improved. In the year following the enactment of the NSL (i.e. July 2020 to June 2021), funds raised through initial public offerings in Hong Kong exceeded HK\$500 billion, an increase of more than 50% compared to the 12 months before the enactment. The average daily turnover of Hong Kong stocks was over HK\$160 billion, nearly 70% higher than the level before the implementation of the NSL. Over the same period, the daily average turnover of northbound trading of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect increased by over 90% to around RMB110 billion, while that of the northbound Bond Connect rose by over 30% to RMB23 billion, manifesting that international investors continued to use Hong Kong as a platform for investing in the Mainland's financial market.

On asset and wealth management, thanks to the strong net fund inflows in 2020, Hong Kong's asset management, fund advisory, private banking and private wealth management businesses all recorded notable growth. As at end-2020, the assets under management (AUM) of the asset and wealth management business in Hong Kong grew by 21% year-on-year to nearly HK\$35 trillion, about one-third of which was contributed by net fund inflows. The AUM of the asset management and fund advisory businesses conducted by licensed corporations and registered institutions increased by 20%, while that of private banking and private wealth management businesses rose by 25%. As for the source of funding, 64% were from overseas, amply demonstrating the extent of internationalisation of Hong Kong's asset and wealth management business.

The bond market also continued to thrive. In 2020, the amount of bond issuance arranged by Hong Kong reached US\$196 billion, ranking first in Asia in terms of the amount of international bond issuance arranged. As for the emerging green finance, the Hong Kong market has been developing rapidly. In 2020, the amount of green debt financing arranged in Hong Kong reached an annual record high of US\$12 billion.





Section 3

International organisations and the business community positively see Hong Kong's business environment



International organisations give clear recognition to Hong Kong's business environment and financial system

Hong Kong's favourable business environment and robust financial system have also been recognised by international organisations including the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD). The IMF's assessment report published this year clearly affirmed Hong Kong's position and role as a major international financial centre, and commended Hong Kong for its resilient financial system, sound macroeconomic and prudential policies, as well as robust regulatory and supervisory frameworks. The World Investment Report 2021 published by the UNCTAD in June this year pointed out that although foreign direct investment (FDI) inflows to Hong Kong were suppressed in 2019 due to social turmoil, and that FDI flows to and from Hong Kong would still be volatile in the medium term, Hong Kong would remain an important financial hub in Asia and a gateway to investment in the Mainland, thanks to a favourable tax regime, simple listing process, absence of capital controls and a good regulatory framework.

Local chambers of commerce welcome and support the implementation of the NSL

Hong Kong's business sector generally welcomes and supports the implementation of the NSL, and considers that it would help restore social order, protect the life and property of the public, promote prosperity and stability of society, stabilise the investment environment and strengthen the confidence of local and overseas investors, thus propelling Hong Kong to reboot.

Many business leaders are of the view that, as the NSL aims to combat serious crimes, namely secession, subversion, terrorist activities and collusion with foreign countries or external elements to endanger national security, committed by an extremely small minority of criminals suspected of endangering national security, normal commercial operations of local and international businesses in Hong Kong would not in the least be affected. Local chambers of commerce generally consider that the NSL helps put Hong Kong back on the right track and stabilise its business environment. Among them, the Chinese General Chamber of Commerce reckons that the NSL helps strengthen the confidence of investors; the Federation of Hong Kong Industries considers that the NSL facilitates stable development of the economy and improves people's livelihood; the Chinese Manufacturers' Association of Hong Kong has remarked that the NSL would not affect the existing institutional framework of Hong Kong, but would rather protect the interests of investors; and the Hong Kong General Chamber of Commerce's survey conducted in May 2020 revealed that the majority of respondents (61%) expected the NSL to have positive or neutral impact on their business in the longer term.

The implementation of the NSL has yielded immediate and notable results, halting chaos and restoring order in Hong Kong. On the occasion of the first anniversary of the promulgation and implementation of the NSL, seminars, opinion surveys and newspaper articles of community leaders all pointed to positive feedback of the business sector.





Foreign chambers of commerce in Hong Kong remain confident about Hong Kong's business environment

When the NSL was first promulgated and implemented, some foreign chambers of commerce expressed concerns that the NSL would affect Hong Kong's fundamentals, core values and business environment, and reduce Hong Kong's attractiveness to foreign investment and talent. Some chambers of commerce were also worried that the NSL would cause China-US trade tensions to further intensify.

However, after in-depth explanation by the HKSAR Government and actual observation, their earlier concerns about the NSL have largely been allayed, and they are now mainly focusing their attention on the challenges brought by the pandemic as well as the opportunities in Hong Kong. For example, AmCham, British Chamber of Commerce, Austrian Chamber of Commerce and Malaysian Chamber of Commerce all agree that Hong Kong remains an ideal place for international companies to do business.

Foreign chambers of commerce remain generally confident about Hong Kong's business environment, and overseas companies wishing to expand their business have high hopes for the National 14th Five-Year Plan and the GBA development. In May this year, the StartmeupHK 2021 event attracted nearly 40 000 participants from 103 economies, reflecting that Hong Kong remains attractive to foreign enterprises and investors. The words and deeds of these business leaders demonstrate that Hong Kong's business environment has not been weakened by the implementation of the NSL, but has instead become more stable and promising.



Hong Kong's financial sector continues to actively expand its local and Mainland business

For many international financial institutions, Hong Kong is an important market in terms of profit contribution. More than three-quarters of the world's top 100 banks have branches in Hong Kong, and 15 of the world's 20 largest private equity funds have established presence here. Many of them have even set up their regional headquarters in Hong Kong. In fact, quite a number of financial institutions have expanded their operations in Hong Kong over the past year, including Manulife Insurance, which has leased nearly 200 000 square feet of office space in Kwun Tong; AIA, which has leased a new office in Tsim Sha Tsui to expand its business; Bank of Dongguan, which has set up a branch in Two International Finance Centre; Haitong International, which has moved into One International Financial Centre to expand its private wealth management business; and Oakwise Capital, which has leased COSCO Tower in Central to establish family office business. These examples vouch for the recognition of Hong Kong's financial market by international financial institutions.

In order to enable international investors and the financial industry to have a more accurate understanding of the actual situation in Hong Kong, the HKMA has, in the past year or so, organised and participated in nearly 100 seminars and used a large amount of comprehensive and reliable data and facts to brief nearly 30 000 people (one-third of them being senior management staff) from major international financial institutions and relevant industry players on the actual situation in Hong Kong, especially the development of the financial industry. Through these activities, the HKMA also endeavoured to understand and address their concerns.

Based on the feedback received by the HKMA, the financial sector generally reckons that the implementation of the NSL will not have any impact on the daily operation of the financial industry. More importantly, after the turmoil in 2019, the implementation of the NSL has helped ensure personal safety, restore social order, and recreate a safe and stable business environment, thus allowing the sector to focus more fully on leveraging Hong Kong's internationalised and competitive financial platform to expand business in Hong Kong and in the region. There are media reports pointing out that many financial institutions such as the HSBC and Citigroup are expanding their business or hiring more staff in Hong Kong in response to the Mainland's opening up in finance and the market opportunities in the GBA. These actions are a testament to the confidence of financial institutions in the long-term development of Hong Kong's market.



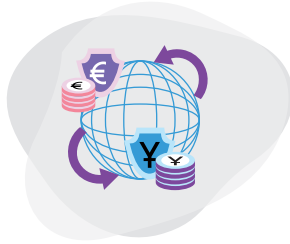


Section 4

Attempts of the US and other Western countries to undermine Hong Kong's stability and restrain Hong Kong's economic development will not succeed



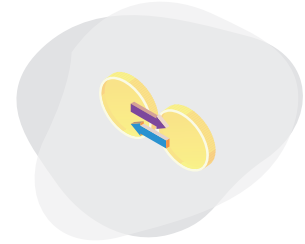
Over the past two years, the US has attempted to undermine Hong Kong's stability and restrain the development of our country and Hong Kong with a variety of destructive and disruptive acts. While these acts may cause some short-term disturbance to local business sentiment, Hong Kong's wide ranging institutional strengths remain intact, including –



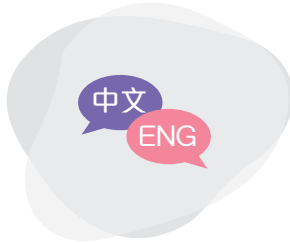
**International centre
for finance, commerce
and trade**



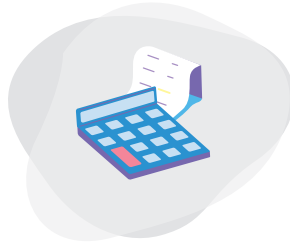
**Rule of law and
judicial independence**



Free flow of capital



**Proficiency in both Chinese and
English and cultural diversity**



**Simple tax system and
low tax rates**



**Superb legal and other
professional services**



**Well-developed
aviation hub**



**Proximity to
the Mainland market**



**High quality
healthcare system**

With these strengths, the US' strategy of suppressing China and its unreasonable acts will not undermine the resilience and development of the Hong Kong economy at all. The number of business operations in Hong Kong with parent companies located outside Hong Kong exceeded 9 000 in 2020, largely the same as that in 2019. The occupancy rates of the two major innovation and technology (I&T) bases, namely the Hong Kong Science Park and the Cyberport, remain high at around 90%.



As for merchandise trade, Hong Kong was ranked the world's eighth largest merchandise trading economy in 2019, and rose to the sixth place in 2020. The value of Hong Kong's total merchandise trade has begun to rebound since the fourth quarter of 2020. Taking the first seven months of 2021 together, the value of total merchandise trade reached HK\$5,616.8 billion, up 13% from the high in the same period in 2018, and was the main driver of Hong Kong's economic recovery. The above figures reflected that Hong Kong's goods trade activities were not affected by the so-called US "sanctions". In fact, as the value of Hong Kong's domestic exports to the US only accounts for a very small share (around 0.1% in 2020) of our total exports of goods, the direct impact on the Hong Kong economy through the merchandise trade channel is very limited.

On the contrary, the unreasonable acts of some Western countries, including the US, towards our country and Hong Kong will only harm or even sacrifice the interests of their own enterprises and investors in the end. For example, the US has benefitted enormously from its economic and trade exchanges with Hong Kong. From 2011 to 2020, the US enjoyed a cumulative merchandise trade surplus of around US\$300 billion with Hong Kong, which had consistently been one of the highest among the US' trading partners. However, as the US stirred international trade conflicts, its merchandise trade surplus with Hong Kong dropped from about US\$31.0 billion in 2018 to about US\$26.1 billion in 2019 (-16%). In 2020, the US' exports to Hong Kong fell by 23% while imports from Hong Kong surged by 67%, resulting in a further 39% drop in the US' merchandise trade surplus with Hong Kong to around US\$16.0 billion.

Hong Kong's goods trade activities were not affected by US "sanctions"



Furthermore, among some 9 000 business operations in Hong Kong with parent companies located outside Hong Kong, over 7 000 are from places outside the Mainland. Of these, 1 560 are from the European Union (EU), 1 398 from Japan, 1 283 from the US and 665 from the United Kingdom (UK). These companies' operations in Hong Kong span a wide range of sectors, and they enjoy the same treatment as that for local Hong Kong companies when entering the Mainland market. AmCham is currently the largest international chamber of commerce in Hong Kong, and Hong Kong is home to about 85 000 US citizens. It would be self-deceptive for the US administration to think that its overall interests would not be affected by unilaterally imposing various measures to restrict normal business activities or exchanges of people and disregarding the huge interests of the US companies and investors in the Hong Kong and the Mainland markets.

More importantly, as one of the major international financial centres and the world's third largest US dollar foreign exchange trading centre, Hong Kong serves numerous multinational companies in the Asia-Pacific region and around the globe, and supports a wide range of investment, wealth management, trading and settlement services. Hong Kong's financial system is closely integrated with the global economic and financial systems and is serving irreplaceable functions. Any moves by foreign countries to attack our financial system would send shock waves across the global financial markets including the US's. Hence, the so-called "sanctions" or any other unilateral actions by Western countries will backfire, harming their own enterprises and people.

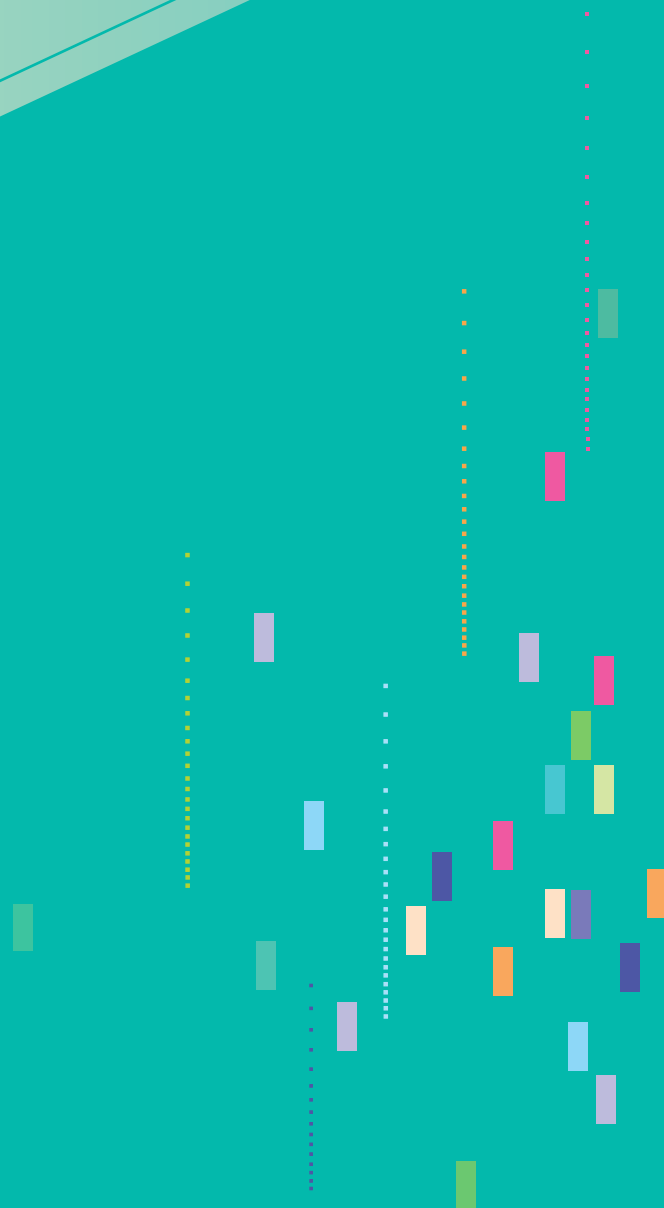


CHAPTER 3





The new Hong Kong back on track has outstanding advantages in business environment with unlimited room for future development





Section 1

Hong Kong's inherent strengths remain intact

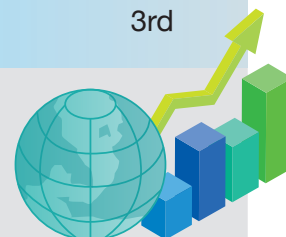


Hong Kong’s economic freedom and competitiveness have all along been well recognised by international institutions. Of particular acclaim are our institutional strengths including the rule of law and judicial independence; free flows of goods, capital, talent and information; a low and simple tax regime; as well as sound regulatory frameworks (Table 1). The disturbance related to the proposed legislative amendments to the Fugitive Offenders Ordinance and the US’ strategy to suppress China have not impaired our established institutional strengths under “One Country, Two Systems”. Hong Kong society and economy have also demonstrated strong resilience in face of challenges posed by the COVID-19 pandemic, ranking first in end July this year by The Economist in its Global Normalcy Index, which measures the extent to which economies have returned to pre-pandemic life. The competitive advantages of Hong Kong’s business environment as delineated in the following paragraphs in this Section are particularly noteworthy.

Table 1: Latest international rankings of Hong Kong in economic freedom and competitiveness

Fraser Institute’s Economic Freedom of the World 2021 Annual Report	1st
“Regulation”	1st
“Freedom to Trade Internationally”	1st
World Economic Forum’s Global Competitiveness Report 2019^(*)	3rd
“Health”	1st
“Financial system”	1st
“Product market”	1st
“Infrastructure”	3rd
“Institutions”	5th
International Institute for Management Development’s World Competitiveness Yearbook 2021	7th
“Government efficiency”	1st
“Business efficiency”	3rd

^(*) The World Economic Forum’s Global Competitiveness Index and related rankings were suspended in 2020. The 2021 report has yet to be published.



Hong Kong's unique advantages under “One Country, Two Systems”

As stated clearly in the Preamble of the Basic Law, “Upholding national unity and territorial integrity, maintaining the prosperity and stability of Hong Kong, and taking account of its history and realities, the People’s Republic of China has decided that upon China’s resumption of the exercise of sovereignty over Hong Kong, a Hong Kong Special Administrative Region will be established in accordance with the provisions of Article 31 of the Constitution of the People’s Republic of China, and that under the principle of ‘one country, two systems’, the socialist system and policies will not be practised in Hong Kong.” Under “One Country, Two Systems”, the HKSAR maintains its previous capitalist system and enjoys unique advantages in relation to doing business. The Basic Law, among other things, protects private property rights and investments from outside the HKSAR, and states that no foreign exchange control policies shall be applied in Hong Kong; maintains Hong Kong’s status as a free port; safeguards the free movements of goods, assets and capital; and stipulates that Hong Kong shall be a separate customs territory. The Basic Law expressly provides for the HKSAR’s judicial independence, the continuing application of the common law and the protection of the fundamental rights of Hong Kong residents. These would further strengthen the confidence of investors in doing business in Hong Kong.

The Basic Law also requires the HKSAR to take its previous low tax policy as reference. Hence Hong Kong’s tax regime is highly competitive. In addition to being simple and transparent, with the profits tax rate for the first HK\$2 million of profits at a mere 8.25% and the relevant rate for remaining part of the profits only at 16.5%, there is also no sales tax, capital gains tax or dividend tax. Characterised by professional governance, high efficiency and clean administration, the HKSAR Government has created an exceedingly business-friendly regulatory environment. In Hong Kong, the procedures for company registration and business registration are very simple and usually take less than an hour to complete. This, coupled with high quality professional services as well as well-developed and efficient financial services, is conducive to business development and entrepreneurship.

“One Country, Two Systems” also brings new opportunities for Hong Kong. For more than 20 years since the reunification, with CEPA and multi-level regional co-operation platforms in place, we have explored the Mainland market, promoted economic integration with the GBA, and continued to attract international capital to invest in the Mainland via Hong Kong. Meanwhile, we have also provided assistance for Mainland products and services to go global and served as a testing ground for the opening up of the country’s financial sector, which has in turn brought us more room for development.





Free port policy

Under the free port policy, Hong Kong adopts zero tariff and does not impose any non-tariff barriers for protecting domestic industries. Although licensing is required for the import or export of certain goods, it is only to fulfil the obligations undertaken by Hong Kong to our trading partners or to meet public health, safety or internal security requirements, and the licensing procedures are very simple. The free port policy ensures the free flow of goods, providing solid support for Hong Kong's trading and logistics industry, thereby consolidating Hong Kong's status as an international business centre and a logistics hub. It also enables Hong Kong to sustain its

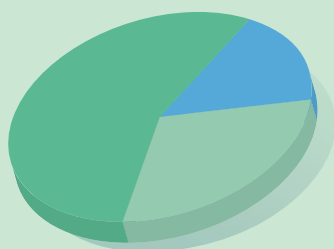
reputation as a "shopping paradise" and benefits I&T development as well.

The flows of various economic factors such as investment, information and talent, together with the vibrant commercial and trade dealings, have enabled Hong Kong to continue to play our roles as home to corporate headquarters and a centre for deploying different economic factors across the region. This contributes substantially to supporting the supply chain and industry chain developments of the Mainland. Hong Kong's role as a "super connector" linking the Mainland to the rest of the world is also partly attributable to our free port policy.



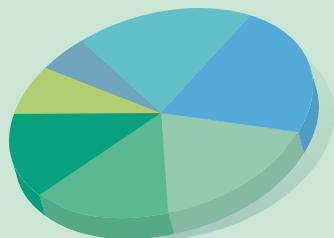


Number of business operations in Hong Kong with parent companies located outside Hong Kong
Year 2020 : 9 025



- 1 504 regional headquarters
- 2 479 regional offices
- 5 042 local offices

By location of parent company



- 1 986 from Mainland
- 1 560 from EU
- 1 398 from Japan
- 1 283 from US
- 665 from UK
- 453 from Singapore
- 1 680 from other places

An international city

Hong Kong is widely known as an open and pluralistic cosmopolitan city, and a place where talent, organisations and enterprises of all sizes from all over the world cluster together. According to the 2020 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong released by Invest Hong Kong (InvestHK) and the Census and Statistics Department, the number of business operations in Hong Kong with parent companies located outside Hong Kong was 9 025 in 2020, broadly similar to that in the preceding year and 9.7% higher than in 2017. The 9 025 companies, comprising 1 504 regional headquarters, 2 479 regional offices and 5 042 local offices, encompassed enterprises of different sizes and industries with parent companies located in different places. In respect of the location of the parent company, the Mainland was ranked first with 1 986 companies. Other locations included the EU (1 560), Japan (1 398), the US (1 283), the UK (665) and Singapore (453). This fully reflects the characteristics of Hong Kong as an international city. According to the World Investment Report 2021 published by the UNCTAD, Hong Kong was ranked third globally in terms of FDI inflows in 2020.



The number of local and overseas startups has been on the rise in recent years, forming a vibrant startup ecosystem. According to InvestHK's 2020 Startup Survey, there were a total of 3 360 startups operating in 116 co-work spaces, incubators and accelerators, an increase of 6% from the preceding year and 51% from 2017. These startups covered a wide range of industries, with fintech (468), e-commerce/supply chain management/logistics technology (385) and professional or consultancy services (357) accounting for the largest numbers. About a quarter (26%) of these startups were founded by people from outside Hong Kong, such as the Mainland (15%), the UK (12%), the US (11%), Australia (9%), France (8%) and Canada (8%), forming a startup community with a strong international horizon. So far, 11 startups have turned into unicorns in Hong Kong.

With the establishment of the Pan-Greater Bay Area Inward Investment Liaison Group, InvestHK of the HKSAR Government and its counterparts in other cities in the GBA develop holistic and joint inward investment propositions to enhance synergy. Through its global network, InvestHK will continue to attract FDI from different industries, thereby attracting talent from all over the world to Hong Kong.



A safe and quality metropolitan environment with a blend of urban and rural lifestyle

Since the reunification, Hong Kong has been at the forefront of international rankings in respect of law and order. Though overshadowed by the black-clad violence which lasted for over a year since June 2019, the bedrock of Hong Kong's law and order remains robust. The implementation of the NSL in particular has halted chaos and restored order in Hong Kong, with violent activities considerably diminished and law and order significantly improved. Save for the impact of the COVID-19 pandemic, the society has generally returned to normal and people's lives are brought back on track. This year, Hong Kong came in as the eighth safest city globally in the Safe Cities Index 2021 released in August by The Economist Intelligence Unit.

The continuous steady improvement in law and order shows that Hong Kong has come out of the worst situation brought by black-clad violence. This notwithstanding, a handful of extremists have not given up on their evil ends. The law enforcement agencies will remain vigilant and will not let down their guard. They will also strengthen ties with various sectors of the community to ensure Hong Kong's safety and stability.

Safe Cities Index 2021
global ranking





The mix of metropolitan lifestyle with countryside setting in Hong Kong is also among the factors attracting overseas enterprises and talent. As an international metropolis, Hong Kong boasts a renowned cityscape, the vibrancy of an international city and a blend of Eastern and Western cultures with an abundance of fascinating food and entertainment. At the same time, almost 70% of Hong Kong's land is lush green countryside and around 40% is protected country parks and special areas, offering huge biodiversity and vast outdoor leisure space. Serene hiking trails are only a moment away from Hong Kong's urban districts, and a spectacular harbour view is right in sight on a ferry trip to the outlying islands. Few cities can concurrently claim, like Hong Kong, a stunning harbour, a UNESCO-listed geopark and hiking trails so close to bustling urban areas.

On top of those mentioned, Hong Kong has an array of world-class arts, cultural and sports events held all year round. Major annual arts, cultural and sports events include: Art Basel Hong Kong, Art Central, Fine Art Asia, Ink Asia, Hong Kong Arts Festival, Hong Kong International Film Festival, Le French May Arts Festival, Chinese Opera Festival, Hong Kong Marathon, FIA Formula E Hong Kong E-Prix, Hong Kong Sevens (Rugby), World Table

Tennis Star Contenders – Hong Kong Open, FIVB Volleyball Nations League, Hong Kong International Dragon Boat Races, Hong Kong Tennis Open, Harbour Race, Hong Kong Open Badminton Championships, Hong Kong Open (Golf), UCI Track Cycling World Cup Hong Kong, China, and Hong Kong Squash Open. The Hong Kong Tourism Board and the Hong Kong Trade Development Council also organise annually the Hong Kong Wine and Dine Festival and Hong Kong International Wine & Spirits Fair respectively that are celebrated in Asia and even across the globe.

With respect to public health, Hong Kong has a quality healthcare system with services provided by healthcare personnel with high standards of professionalism and ethical conduct. The male and female life expectancies at birth in Hong Kong are among the world's highest, while its infant mortality rate is among the lowest. There are 43 public hospitals and institutions under the Hospital Authority. In addition, 12 private hospitals complement the public sector by providing a range of specialist and hospital services.



Robust financial system and free flow of capital

Hong Kong's advantages as an international financial centre are not only maintained but also continuously strengthened. On the institutional aspect, the Linked Exchange Rate System has stood up to relentless challenges and remained stable, winning firm confidence of the market. At the same time, Article 112 of the Basic Law guarantees the free flow of funds and the free convertibility of the Hong Kong dollar. After years of development, Hong Kong has established legal and regulatory regimes as well as the financial infrastructure and supporting services required of a mature international financial centre. Building on these foundations, the financial system has a strong buffer to manage various financial risks and withstand shocks, and has earned a unique position connecting the Mainland and international financial markets. In addition, with the pooling of various types of international talent, a financial ecosystem of remarkable competitiveness has been formed in Hong Kong. In the Global Financial Centres Index jointly published by Z/Yen from the UK and the China Development Institute from Shenzhen in September this year, Hong Kong was ranked third, just behind New York and London.



Extensive participation in international economic and trade organisations

Under “One Country, Two Systems”, Hong Kong is a separate customs territory and has been actively participating in international economic and trade organisations such as the WTO and Asia-Pacific Economic Cooperation (APEC). Hong Kong will continue to actively participate in these organisations, staunchly support the rules-based multilateral trading system, advocate global free trade, establish mutually beneficial economic and trade relations with trading partners worldwide, object to any unilateral trade restrictions or measures inconsistent with the WTO rules, and safeguard Hong Kong’s economic and trade interests.

Well-developed infrastructure and digital facilities

Hong Kong has well-developed infrastructure, ranking third globally for “Infrastructure” in the World Economic Forum’s Global Competitiveness Report 2019 and seventh globally for “Basic Infrastructure” in the International Institute for Management Development’s World Competitiveness Yearbook 2021. On external connectivity, Hong Kong currently has eight major land crossings, and the Hong Kong International Airport has long been regarded as one of the world’s best and busiest airports. Upon full commissioning of the Three-Runway System, the annual passenger and cargo handling capacities of the Hong Kong International Airport are expected to reach around 100 million passenger trips and 9 million tonnes respectively. These world-class infrastructure facilitates the flows of people, goods and information between Hong Kong and other places around the world and strengthen Hong Kong’s commercial connectivity with different regions. As for local infrastructure, Hong Kong’s renowned railway system is mature, efficient and affordable, and carries millions of passengers daily.

Hong Kong is also equipped with world-class digital and telecommunications facilities, including 11 submarine optical fibre cable systems, 20 overland optical fibre cable systems and 11 communication satellites, alongside a 5G network coverage of over 90%. Meanwhile, the power supply in Hong Kong is highly reliable and the electricity tariff is low compared to other Asia-Pacific cities. These are conducive to creating a favourable environment for the development of the local I&T industry, e-commerce, a smart city, and so on. Moreover, given our proximity to the Mainland market and strategic location at the heart of Asia, Hong Kong is well positioned to serve as a regional data centre hub and develop information technology (IT) and data related business. In recent years, a number of technology giants and internet and cloud service providers have expanded their presence in Hong Kong. Many local data centres and telecommunications operators have also strived to expand their markets. The vibrant development of a smart city and e-commerce in Hong Kong has created countless business opportunities for the IT industry.



A wealth of talent

Hong Kong has a well-educated labour force. Local professionals are highly regarded and of international standards. They are capable of handling international financial, commercial and trade businesses, value professional ethics, and are therefore trusted by business partners worldwide. These professional talent can proactively explore the Mainland market and meet the huge demand for professional services arising from the Mainland's domestic circulation. They can also strengthen Hong Kong's role as an intermediary in our country's international circulation, helping foreign enterprises tap into the Mainland market and Mainland enterprises go global. Furthermore, they can provide multi-discipline support for trade and business projects among the Belt and Road economies.

As for I&T talent, Hong Kong is home to five universities that are ranked top 100 worldwide and thousands of I&T scholars and researchers, with capacity to connect top-notch talent in scientific research both in the Mainland and overseas. The HKSAR Government will continue to ensure an adequate supply of talent for supporting I&T development via a three-pronged approach, namely nurturing, retaining and attracting talent. In addition to creating entrepreneurship and employment opportunities by promoting sustainable development of the I&T ecosystem, the HKSAR Government is taking forward a number of schemes (such as the Global STEM Professorship Scheme) to attract world-class scholars and their research teams to Hong Kong.





The HKSAR Government has implemented a series of policies and initiatives to support startups and nurture talent. Among them, the Technology Start-up Support Scheme for Universities supports technology startups established by teams of six local universities in commercialising their R&D outcomes. The Innovation and Technology Venture Fund introduced by the HKSAR Government invests in local startups on a matching basis. The Hong Kong Science and Technology Parks Corporation and the Cyberport also offer various incubation and acceleration programmes to provide technology startups with financial, technological and business support, as well as working space and common facilities.

In addition, the HKSAR Government attracts overseas talent to come to Hong Kong through the Quality Migrant Admission Scheme and other admission schemes. In recent years, the HKSAR Government also promulgated the Talent List, providing immigration facilitation to 11 professions (including asset management, marine insurance and fintech professionals), and launched industry-specific talent schemes, such as the Global STEM Professorship Scheme, to attract relevant professionals in a more effective and targeted manner.





Section 2

Sound and robust rule of law and
judicial independence reinforced



The rule of law is the cornerstone of the success of the HKSAR, and a core value of Hong Kong society. Article 8 under the General Principles of the Basic Law provides that “the laws previously in force in Hong Kong, that is, the common law, rules of equity, ordinances, subordinate legislation and customary law shall be maintained, except for any that contravene this Law, and subject to any amendment by the legislature of the Hong Kong Special Administrative Region.” As such, Hong Kong’s common law system is preserved by the Basic Law, making Hong Kong the only common law jurisdiction in China.

International commercial and investment activities can only thrive under a stable and rule of law-based environment. With full respect to Hong Kong’s unique common law system and judicial independence, the Central Government has strictly adhered to the Constitution and the Basic Law, and also formulated and implemented the NSL to foster a more predictable business and investment environment which is conducive to the long term prosperity and stability of the city. Subsequently, the electoral system of the HKSAR has been improved with a view to ensuring “patriots administering Hong Kong” by putting in place institutional safeguards to plug the loopholes of the electoral system. This has effectively dealt with the internal rift that has torn Hong Kong apart. The NSL has restored order in Hong Kong and provided an orderly social environment for commercial development in Hong Kong, making the HKSAR once again a harmonious, diverse and inclusive international metropolis where business as well as international trade and investment activities can be conducted as usual, and the legitimate rights and interests of Hong Kong residents and foreigners are fully safeguarded.



Sound and robust legal system

The law is closely intertwined with commerce. The Basic Law guarantees the common law system of Hong Kong, which is widely accepted by the commercial community, and maintains the tradition of the rule of law in Hong Kong, laying the rule of law as a foundation for commercial development. The “One Country, Two Systems” principle has maintained the capitalist system underpinned by Hong Kong’s common law system, and provides a sound financial regime for commercial development in Hong Kong.

The HKSAR Government is and will always be strongly committed to upholding the rule of law, judicial independence and the fundamental rights and freedoms of Hong Kong residents, which are strongly institutionalised and constitute the cornerstone of Hong Kong’s success as an international financial centre. The HKSAR Government will reinforce Hong Kong’s strengths as an international legal and dispute resolution services centre; give full support for safeguarding national security in Hong Kong to ensure the steadfast and successful implementation of “One Country, Two Systems”; and maintain a favourable environment for investment and conducting business, thereby ensuring Hong Kong’s prosperity and stability.

At the individual level, the Basic Law sets out the fundamental rights and freedoms of our residents. The relevant provisions of the International Covenant on Civil and Political Rights as applied to Hong Kong remain in force and are implemented through the laws of the HKSAR.

All Hong Kong legislation has been uploaded onto the “Hong Kong e-Legislation” website for public viewing. Written judgments of most courts are also published on the Judiciary’s website for ready access by members of the public.

Anyone who is lawfully arrested shall have the right to a fair trial by the judicial authorities without delay and is presumed innocent until convicted by the judicial authorities. At present, almost all court proceedings are open to the public, and most of the written judgments are pronounced publicly.

The Basic Law guarantees that everyone is equal before the law. The powers of the HKSAR Government, all civil servants and other bearers of public authority originate from the law and are restricted by the law.

Hong Kong’s common law is also similar to the laws of major economies in the world such as the UK, the US and Australia, and complements the norms of international business transactions, so as to provide investors with solid legal protection whether they are investing in Hong Kong or channelling investments through Hong Kong to the Mainland or to other economies. Hong Kong has comprehensive commercial and property laws encompassing intellectual property, companies, finance and debt restructuring legislation. They are familiar to those involved in international commercial transactions. Hong Kong’s well-established legal system, together with its comprehensive dispute resolution mechanism and judicial independence, have provided a solid foundation for establishing Hong Kong as a major international legal and dispute resolution centre in the Asia-Pacific region, which can provide proper legal protection and recognition for cross-border transactions and investments of enterprises. Furthermore, Hong Kong has signed 22 investment promotion and protection agreements (IPPAs) with 31 foreign economies. The IPPAs protect investments made by investors from one contracting party in the area of the other contracting party, offering investors investment protection in Hong Kong, as well as protection for overseas investments made through Hong Kong.



Globally recognised rule of law and judicial independence

Hong Kong's judiciary is well-respected globally for its independence, quality and transparency. Hong Kong retains its original legal system and implements the common law, and the courts of the HKSAR exercise independent judicial power (including the power of final adjudication). The appointment, status, tenure and removal of judges in Hong Kong are free from any interference by the executive authorities and the legislature. These rights and systems are guaranteed by the Basic Law.



The Chief Justice of the Court of Final Appeal, Mr Andrew Cheung Kui-nung, remarked in his speech at the Ceremony for the Admission of New Senior Counsel on 29 May 2021 that “in Hong Kong, our judges administer justice strictly in accordance with the law, without fear or favour, self-interest or deceit. The judicial power is exercised independently by the courts, not subject to any interference.”

Hong Kong's judicial independence is well respected as evidenced by the presence of eminent jurists from other common law jurisdictions in the Hong Kong Court of Final Appeal. The former justice of the Supreme Court of the UK and a Non-Permanent Justice of the Hong Kong Court of Final Appeal, Lord Sumption pointed out in *The Times* on 18 March 2021 that “the permanent judiciary of Hong Kong is completely committed to judicial independence and the rule of law. Successive chief justices have made this clear in public statements. These statements are not just lip service. They represent the convictions of experienced, courageous and independent-minded judges.”

Moreover, Hong Kong cases are cited in overseas jurisprudence every now and then, which speaks volumes about the confidence of the global legal community in Hong Kong's sound judicial and legal systems.

Hong Kong's judiciary maintains order of the commercial community and protects the legitimate rights and interests of the transaction parties. Through upholding the rule of law, it also bolsters the confidence of local and foreign investors in Hong Kong, which helps attract foreign investments and augment Hong Kong's overall business environment and competitiveness, benefitting all in society.

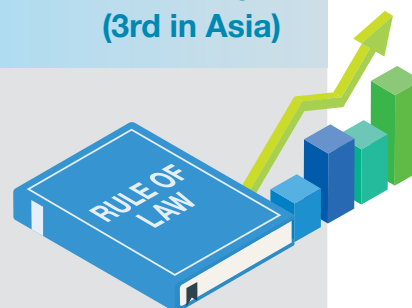


Since the return to the Motherland, Hong Kong has been at the forefront of international rankings related to the rule of law and judicial independence. Hong Kong has been able to maintain a high rank and improve in related indicators, and is comparable to or has even surpassed other common law jurisdictions such as the US, the UK and Canada in many aspects. Hong Kong’s advantages are particularly obvious within the Asia-Pacific region, comparing equally or even favourably with jurisdictions such as Singapore, New Zealand and Australia (Table 2).

Table 2: Hong Kong’s latest international rankings/ratings concerning the rule of law and judicial independence

World Economic Forum’s Global Competitiveness Report 2019^(*)	3rd
“Efficiency of legal framework in challenging regulations” indicator	2nd
“Efficiency of legal framework in settling disputes” indicator	3rd
“Judicial independence” indicator	8th
International Institute for Management Development’s World Competitiveness Yearbook 2021	7th
“Business Legislation” sub-factor	1st
“Legal and Regulatory Framework” indicator	3rd
“Bribery and Corruption” indicator	8th
“Rule of Law” indicator	15th
Transparency International’s Corruption Perceptions Index 2020	11th
World Justice Project’s Rule of Law Index 2020	16th (3rd in Asia)

^(*) The World Economic Forum’s Global Competitiveness Index and related rankings were suspended in 2020. The 2021 report has yet to be published.





CITY HALL
大會堂

World-renowned dispute avoidance and resolution services

Arbitration

The existing Arbitration Ordinance (Chapter 609) in Hong Kong is based on the Model Law on International Commercial Arbitration of the United Nations Commission on International Trade Law, which is well known to the business community. The Ordinance, upon amendments, also addresses the needs of the business sector by expressly allowing disputes involving intellectual property rights to be resolved by arbitration, as well as permitting third party funding of arbitration.

Hong Kong has an extensive pool of distinguished talent in dispute resolution (well-versed in English, Chinese and other languages). Reputable dispute resolution bodies have established offices or handle disputes in Hong Kong, including the Hong Kong International Arbitration Centre, the International Chamber of Commerce International Court of Arbitration, the China International Economic and Trade Arbitration Commission, the China Maritime Arbitration Commission, the Hong Kong Maritime Arbitration Group, eBRAM International Online Dispute Resolution Centre (eBRAM Centre) and the Permanent Court of Arbitration. A wealth of talent and a wide range of arbitration institutions provide diversified services for investors within or outside the region to meet their varying needs. Hong Kong is also listed as one of the four designated arbitration venues in the dispute resolution clause of the standard contracts of the Baltic and International Maritime Council.

The HKSAR Government encourages the business community to resolve disputes by arbitration. Judicial independence in Hong Kong protects the enforcement of arbitral awards and Hong Kong courts adopt an arbitration-friendly approach. Through various international conventions and regional arrangements, arbitral awards made in Hong Kong can be recognised and enforced in all contracting states that have signed the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the Mainland and Macao.

Leveraging its advantages under “One Country, Two Systems”, Hong Kong has signed with the Mainland the Arrangement Concerning Mutual Assistance in Court-ordered Interim Measures in Aid of Arbitral Proceedings by the Courts of the Mainland and of the HKSAR, which makes Hong Kong the only jurisdiction outside the Mainland where, as a seat of arbitration, parties are able to apply to the Mainland courts for interim measures. As of 27 July 2021, arbitration institutions in Hong Kong have submitted 47 applications for interim measures to the People’s Courts of the Mainland with a total asset value of RMB14.1 billion (approximately US\$2.2 billion), of which the total asset value involved in the approved interim measures amounted to RMB10.8 billion (approximately US\$1.7 billion).



With its comprehensive arbitration legal framework, a pool of outstanding talent, offices set up by renowned international dispute resolution institutions, and its unique arrangements with the Mainland, Hong Kong was ranked the third most preferred seat for arbitration worldwide by the 2021 International Arbitration Survey released by Queen Mary University of London in May this year, one place up from the 2018 ranking and surpassing Paris, and has over the years remained within the top five in the world. It is believed that Hong Kong will increasingly become the most preferred place of arbitration for enterprises and individuals.

Mediation

The existing Mediation Ordinance establishes a regulatory framework for the conduct of mediation in Hong Kong, promoting, encouraging and facilitating resolution of disputes by mediation. Further, Hong Kong is the first jurisdiction in Asia to enact an Apology Ordinance to promote and encourage the making of apologies among different parties for preventing the escalation of disputes and maintaining the co-operative relationship among all parties to the greatest extent.

Benefitting from “One Country, Two Systems”, for promotion and protection of investments between the two places, an Investment Agreement signed under the framework of CEPA provides a Mediation Mechanism for Investment Disputes for settlement of an investment dispute arising from an alleged breach of the substantive obligations of the Agreement by one side causing loss to an investor of the other side. This would provide an alternative cost-effective option for investors within or outside the region to resolve investment disputes.



Online dispute resolution

The HKSAR has opted into the APEC Collaborative Framework for Online Dispute Resolution since April 2020, collaborating to develop a cross-border platform for cost-effective online dispute resolution to resolve disputes involving different places, languages and legal jurisdictions. An online dispute resolution platform developed by eBRAM Centre and supported by the Department of Justice (DoJ) was launched in June 2020, rolling out its services in phases to provide micro, small, and medium enterprises with a low-cost, secured, innovative and comprehensive channel for resolving disputes online, thereby facilitating cross-border trade and capitalising on the business opportunities brought about by the Belt and Road Initiative and the GBA's development.





■ Section 3

Opportunities from leveraging the support from the Motherland while engaging the world





The Hong Kong economy has always been positioning itself to leverage the support from the Motherland while engaging the world. In supporting the Mainland's reform, opening up and integration into the global economy by providing high value-added services, Hong Kong has gradually developed into an international financial, trade and transportation centre. After 40 years of rapid development, the Mainland market has become increasingly important to the Hong Kong economy. The Mainland is Hong Kong's largest market for exports of goods, with its share in our total exports rising from 35% in 2000 to 59% in 2020. Hong Kong's financial market also strives to serve the Mainland's real economy, with the number of Mainland enterprises listed in Hong Kong surging from 142 in 2000 to 1 319 in 2020 and their share in market capitalisation rising from 27% to 80%. At the same time, more and more Hong Kong services sectors are developing business in the Mainland market.

With significant improvement in economic strength, technology capability, composite national strength and people's living standards, our country is entering a new stage of development. In 2020, our country's GDP reached RMB101.6 trillion (i.e. US\$14.7 trillion), surpassing the RMB100 trillion mark for the first time. The National 14th Five-Year Plan formulated by the country promotes high-quality development, with reforms and innovation as the primary driving forces, and aims to accelerate the establishment of a new development pattern featuring dual circulation, which takes the domestic market as the mainstay while enabling the domestic and international markets to interact positively with each other. This implies an expanding and improving domestic market, an enlarging middle-class consumer group, persistent upgrading of industries and further upgrading of external economic connections. Our country's economy will continue to see relatively rapid development, heading for the level of moderately developed countries. The new development pattern will certainly open up new opportunities to Hong Kong.



The National 14th Five-Year Plan sets a clear positioning for the development of Hong Kong. It supports Hong Kong in consolidating and enhancing its status as an international financial, transportation and trade centre as well as a centre for international legal and dispute resolution services in the Asia-Pacific region (i.e. the four traditional centres), while at the same time supporting Hong Kong's development in four emerging areas, i.e. as an international aviation hub, an international I&T hub, a regional intellectual property trading centre, and a hub for arts and cultural exchange between China and the rest of the world. As long as Hong Kong can have complementary and co-ordinated development with the Mainland in these areas, there will certainly be unlimited business opportunities for local industries and foreign enterprises in Hong Kong.

The neighbouring Guangdong Province, one of the most economically vibrant regions in our country, is a world-renowned base for production and exports. In recent years, its I&T and advanced services industries have also developed rapidly. The GBA city cluster, comprising Hong Kong, Macao and the nine Pearl River Delta cities, which account for 81% of Guangdong's GDP, is one of the world's largest and most competitive bay areas. The GBA has a population of 86 million. With GDP at US\$1.67 trillion in 2020, it is about the same size as the world's ninth largest economy (Canada), and boasts a per capita GDP of close to US\$20,000. It has well-developed infrastructure, convenient transport network and strong development potential. The GBA development has become our country's key strategic development and provides the best entry point for Hong Kong to integrate into the national economy. The recently announced Comprehensively Deepening the Reform and Opening-up Plan for the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone provides new opportunities for Hong Kong's development.

With our unique positioning provided by the National 14th Five-Year Plan and the unlimited opportunities brought about by the GBA development, Hong Kong, with the advantages under "One Country, Two Systems", will be provided with new impetus for economic development. On the one hand, as an important node in the international circulation of our country, Hong Kong can strengthen its roles and functions as a "super connector", a high value-added services platform, international talent and capital

pools, a testing ground and a firewall, thereby providing business opportunities for all industries. On the other hand, Hong Kong can participate in the domestic circulation of the national economy through the GBA, so as to integrate into our country's overall development and better grasp the huge domestic market of the Mainland. To go along the aforementioned development directions, Hong Kong will definitely consolidate and enhance its prevailing strengths, develop new edges and provide a more favourable business environment for enterprises. We should foster complementary and co-ordinated development with the Mainland while maintaining connection with the international arena, in order to serve as the bridge between the Mainland and the rest of the world, the unique role of Hong Kong under "One Country, Two Systems". On the basis of maintaining our existing economic system, Hong Kong's interface with the Mainland will evolve from a relatively simple and piecemeal mode of the past to a comprehensive and multi-levelled relationship. There should be both tangible infrastructural connections as well as intangible linkage of regulatory and institutional frameworks; free flows of goods, services, information and talent as well as common platforms for cross-boundary collaboration among people and corporations; synergies with the Mainland for attracting global factors as well as joint-efforts for developing overseas markets; economic interactions as well as cultural, social, academic and technological exchanges; and a focus on the opportunities arising from the GBA as well as co-operation with other regions in parallel. Overall speaking, Hong Kong should strive for continuous innovation in its institutions and policies, in order to enhance the economic development of the city while serving the needs of our country.

The following paragraphs briefly delineate how the four traditional centres and the four emerging areas mentioned earlier will gain more development opportunities in our country's new phase of development.





International Financial Centre

Our country is increasingly affluent and developed, and has entered a new stage of development. To enhance the capability of the financial sector in serving the real economy and achieve a more efficient allocation of resources, there will be higher requirements on financing channels, investment products and different types of financial services. Greater importance also needs to be accorded to financial security, while the internationalisation of the Renminbi will be prudently advanced. All these efforts will help establish a new system for opening up the economy at a higher level. With the positioning of Hong Kong as an international financial centre as set out in the National 14th Five-Year Plan, our financial industry will be able to explore more opportunities amid our country's overall development.

Under “One Country, Two Systems”, the characteristics of Hong Kong's financial regulatory regime (including the common law, and free flows of capital and talent) are protected, ensuring that our regime aligns with international standards and Hong Kong plays an effective role as a bridge linking the Mainland market with the international market, so that we can screen off risks for the onshore market while providing a familiar environment for foreign investors to invest in the Mainland. Hong Kong's stock market, bond market and offshore Renminbi market attract investors around the world to invest in the Mainland through Hong Kong. The mutual access between the financial markets of Hong Kong and the Mainland has extended Hong Kong's role as a bridge to the Mainland's stock and bond markets. Currently, under the mutual access mechanism, around 60% of international investors are trading Mainland's bonds through the Bond Connect, and around two-thirds of international investors are trading Mainland's stocks through the Stock Connect. With the robust economic development of the GBA and the sustained growth of personal wealth, the implementation of the Cross-boundary Wealth Management Connect in the Guangdong-Hong Kong-Macao Greater Bay Area and the Southbound Trading of the Bond Connect will provide our financial sector with greater room for development. More international financial institutions can use Hong Kong as their base for tapping the business opportunities brought about by the rapid economic development of the Mainland, and Mainland's financial institutions can use Hong Kong as a springboard to go abroad.



International Trade, Aviation and Transportation Centre

Under the new development pattern of dual circulation, our country will open up further. Import volume will increase and import sources will be more diverse, while exports will be upgraded in terms of product quality and structure with development in both traditional and emerging markets. More overseas companies will invest and do business in the Mainland. These trends will generate huge flows of people and goods, hence providing unlimited opportunities for Hong Kong's trading, aviation and transportation industries.

Hong Kong's ranking rose to the sixth in the world in terms of total value of merchandise trade in 2020. Under "One Country, Two Systems", we have a continuously expanding international network on the one hand, and have increasingly close ties with the Mainland on the other. Hong Kong can leverage its status as a trade centre to contribute to our country's external trade, by providing new sources of goods, exploring new markets, and strengthening connections of the Mainland's industrial chain with that of the world (especially Southeast Asia) through supply chain management. These efforts to support our country in enhancing international circulation will also create more business opportunities for Hong Kong.

As the Mainland endeavours to promote the internationalisation of producer services such as finance, consulting, accounting and legal services, there will be new demands for the various professional services in Hong Kong. Hong Kong has considerable advantages in trade in services, with a pool of high-

quality talent and services of international standards. These strengths enable the local industries to effectively grasp the opportunities brought to the high-end services sectors by the upgrading of our country's economic development.

The growing international trade in goods and services will certainly open up new room for development for Hong Kong's aviation, maritime and logistics industries. Hong Kong is strategically located at the heart of Asia. The Hong Kong International Airport connects with over 200 destinations, including 40 destinations in the Mainland. One can reach all major commercial cities in Asia in four hours' flight time. The Third Runway, which is scheduled for commissioning in 2022, will further enhance Hong Kong's handling capacity of both passengers and cargo, thereby facilitating the flows of people and goods between the Mainland and overseas economies.

Hong Kong's maritime and logistics services are important stakeholders in the global freight system. Hong Kong's natural deep-water port handled 18 million TEUs of container throughput in 2020, over 60% of which being transshipment cargo. Ports in Hong Kong, Shenzhen and Guangzhou Nansha together constitute the GBA port cluster, which is highly competitive by international standards. With the development of cross-border e-commerce in our country and the continued improvement in overseas production networks and circulation systems, Hong Kong's maritime and logistics industries will embrace new development opportunities.



International I&T Hub and Regional Intellectual Property Trading Centre

The National 14th Five-Year Plan has assigned a core position to technological development and independent innovation, with the establishment of an international I&T hub being a priority in the GBA development. Our country has drawn up a blueprint for I&T development, and has mapped out a series of major technological infrastructure and technology projects in the GBA, which will definitely generate a strong demand for I&T products and services. As long as Hong Kong can leverage its own strengths and collaborate with other cities in the GBA, it will certainly have great potential in I&T development.

Hong Kong has many strengths in the area of I&T, including a strong foundation for basic scientific research, a wealth of research and development personnel with rich experience in international scientific research collaboration, and alignment with international markets and standards. Our country positions Hong Kong as an international I&T hub, encourages Hong Kong to strengthen I&T co-operation with other cities in the GBA, and includes the Shenzhen-Hong Kong Loop as one of the four major platforms of co-operation in Guangdong, Hong Kong and Macao. The Shenzhen/Hong Kong Innovation and Technology Co-operation Zone, which comprises the Hong Kong-Shenzhen Innovation and Technology Park and the Shenzhen Innovation and Technology Zone, will realise “One Zone, Two Parks” along “One River, Two Banks” under “One Country, Two Systems”. These developments will not only allow Hong Kong’s scientific research institutions and I&T enterprises to make use of the Mainland’s I&T

resources, but also enable them to benefit from the huge Mainland market. International I&T enterprises can enter the Mainland markets via Hong Kong, whereas Mainland I&T enterprises can find overseas opportunities through the city.

Intellectual property is an indispensable part of our country’s promotion of I&T development and upgrading of industries. With the advantages under “One Country, Two Systems”, Hong Kong has established a strong intellectual property protection regime, sound legal and judicial systems, and sophisticated services sectors. Thus, Hong Kong is certainly well positioned to be a regional intellectual property trading centre. In particular, the vibrant economic development and enormous potential of the GBA will bring tremendous business opportunities related to intellectual property trading to Hong Kong.



Centre for International Legal and Dispute Resolution Services in the Asia-Pacific Region



As our country's economy continues to develop at high speed, there will naturally be a significant increase in trade and economic exchanges with other places, generating substantial business opportunities for legal and dispute resolution services. Under the principle of "One Country, Two Systems", Hong Kong retains the common law system which is in line with international commercial rules, and has judicial independence and internationally recognised dispute resolution services. Many investors wish to use the laws and dispute resolution services of Hong Kong to resolve disputes arising from their business dealings with the Mainland.

Some institutional innovations supported by our country, such as establishing a regular communication platform between Mainland enterprises and the Hong Kong legal profession to strengthen exchanges, permitting qualified Hong Kong legal practitioners to obtain the qualification to practise Mainland laws in the Mainland cities in the GBA, and allowing Hong Kong-, Macao-, Taiwan- and foreign-invested enterprises registered in specific areas of the Mainland to choose Hong Kong laws or use Hong Kong as the seat of arbitration to resolve disputes, would facilitate the legal sector to expand cross-boundary legal services, and encourage more enterprises to use the laws of Hong Kong and its dispute resolution services. In addition, the DoJ and the Supreme People's Court of the Mainland have signed a number of mutual legal assistance arrangements on reciprocal recognition and enforcement of judgments, interim measures in arbitral proceedings, etc. These arrangements have made Hong Kong the only jurisdiction outside the Mainland where mutual recognition of and assistance in insolvency proceedings are allowed, and the only seat of arbitration outside the Mainland where parties are able to apply to Mainland courts for interim measures. The feasibility of conducting relevant activities in Hong Kong has also been enhanced.



Hub for Arts and Cultural Exchange between China and the Rest of the World

Hong Kong inherits the rich culture of the Motherland on the one hand and is exposed to the diverse cultures of the rest of the world on the other. Our country supports Hong Kong in developing into a hub for arts and cultural exchange between China and the rest of the world. This, coupled with other measures including the provision of precious cultural relics for exhibition in Hong Kong and encouraging scholars and conservators to stay and conduct academic visits, will bring more opportunities for the development of arts and culture in Hong Kong in future and enhance the attractiveness of Hong Kong as a metropolis, thereby drawing talent from all over the world.

The arts and cultural facilities in Hong Kong, including the cluster of museums consisting of the M+ Museum and the Hong Kong Palace Museum in the West Kowloon Cultural District, both expected to be commissioned soon, and the Hong Kong Museum of Art, as well as other existing performance venues, museums, visual arts centres and the film archive, will provide the vehicle for cultural exchange between the country and the rest of the world. They will also facilitate expansion of the scope of exchange and collaboration to more leading Mainland and international arts and cultural institutions.

Hong Kong has held world-class events such as the Hong Kong Arts Festival, Art Basel Hong Kong Exhibition and Art Central, and co-organised large-scale exhibitions with many renowned museums and cultural institutions in the Mainland and overseas. Hong Kong will host the Mid-year Congress of the International Society for the Performing Arts in 2022. With the support of the Central Government, the HKSAR Government will actively promote in-depth exchange between the museums, cultural institutions and performing arts institutions in the Mainland and overseas through Hong Kong.



CONCLUDING REMARKS



The raging violent riots and the US' unreasonable economic suppression of Hong Kong once dealt a severe blow to the economy and business environment of Hong Kong. Yet, following the implementation of the NSL, and with the unique advantages under "One Country, Two Systems", social stability and the business environment of Hong Kong have been quickly restored, creating better conditions for the post-epidemic economic recovery. The facts below cogently illustrate the strong foundation and resilience of Hong Kong's society and economy, as well as its superior business environment.

- The society has returned to rationality. Public order has been restored and riots are no longer seen. Compared to the peak period of black-clad violence in the second half of 2019, the overall number of crimes decreased by nearly 10% in the first half of 2021, with offences against public order and arson cases reducing by over 90% and nearly 80% respectively. Hong Kong continues to rank as one of the top ten safest cities by many international organisations;
- The economy has turned the corner, rebounding by 7.8% in the first half of 2021. The unemployment rate retreated from the peak of 7.2% to 4.7%. The property market has also become active again;
- The financial market has performed well. In the 12-month period ending June 2021, funds raised through initial public offerings increased by more than 50%; the turnover of the Hong Kong stock market increased by nearly 70%; the AUM of the asset and wealth management business grew by 20%; and the amount of international bond issuance in the bond market ranked first in Asia;
- Many international financial institutions, including insurance companies, banks and wealth management companies, continue to expand their business in Hong Kong; and
- Foreign chambers of commerce remain confident in Hong Kong's business environment. The AmCham, Austrian Chamber of Commerce, British Chamber of Commerce, and Malaysian Chamber of Commerce agree that Hong Kong remains an ideal place to do business. In May this year, the StartmeupHK 2021 event attracted nearly 40 000 participants from over 100 economies.



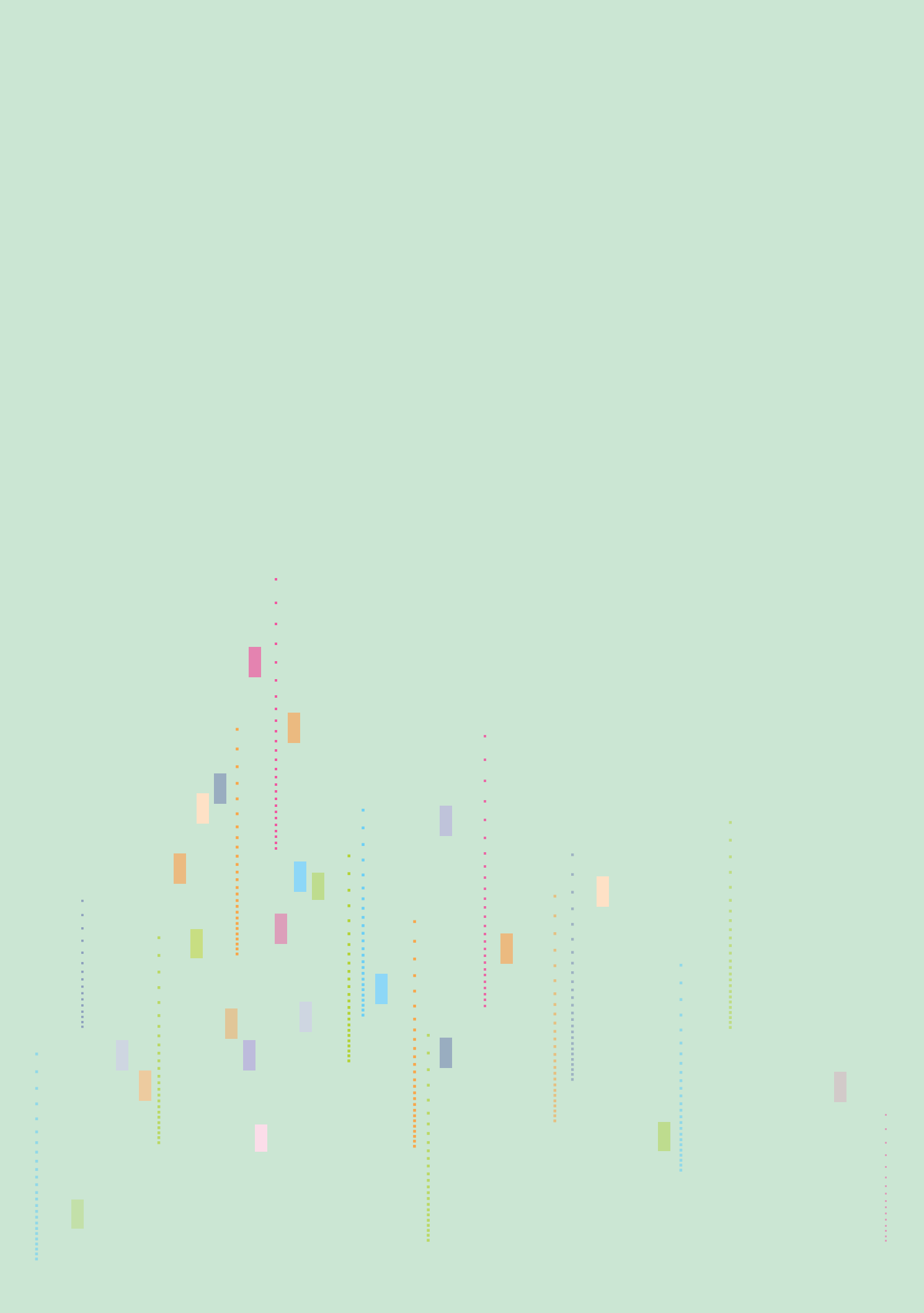
These facts prove that, by leveraging the support from the Motherland while engaging the world, Hong Kong has developed into an international centre for finance, commerce and trade, a home for corporate headquarters, as well as a major hub of investment, transportation and logistics. Under “One Country, Two Systems”, Hong Kong has built an economic system different from that of other Mainland cities. It has world-class infrastructure that facilitates the flows of people, goods and information between Hong Kong and the rest of the world, making it a highly internationalised cosmopolitan city. To foreign enterprises and talent, Hong Kong’s superb geographical location provides a direct entry point into the huge Mainland market, and an international gateway to the GBA, which has a population of 86 million and a GDP similar to that of the world’s ninth largest economy. Besides, with a rich blend of Eastern and Western cultures as well as a good mix of metropolitan and rural charm, Hong Kong is undoubtedly immensely attractive to overseas talent. These edges and characteristics enable Hong Kong to play an irreplaceable role as a gateway between our country and other parts of the world.

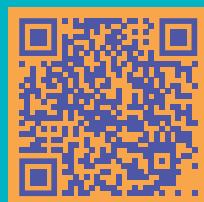
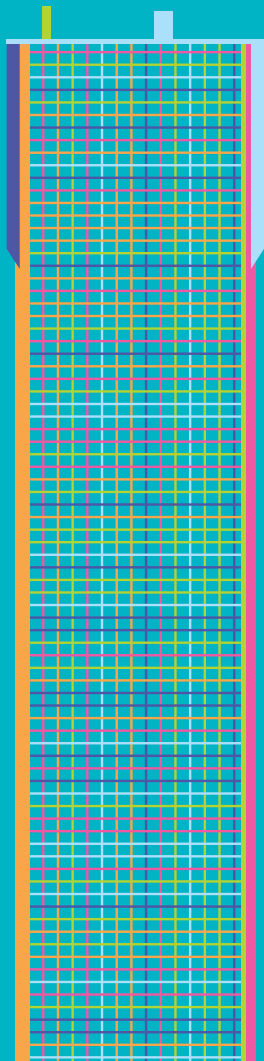
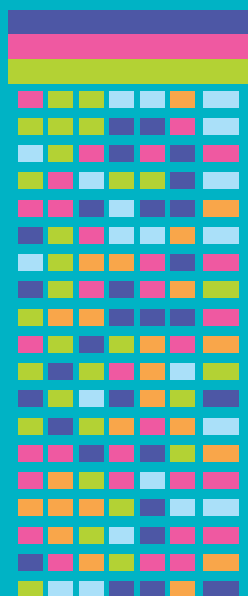
Apart from the above advantages, the National 14th Five-Year Plan offers huge opportunities to Hong Kong. Hong Kong will proactively integrate into the overall development of our country. Under the National 14th Five-Year Plan, the HKSAR is positioned as an international financial, transportation and trade centre as well as an international aviation hub; a global

offshore RMB business hub, an international asset management centre as well as a risk management centre; and an international I&T hub, a centre for international legal and dispute resolution services in the Asia-Pacific region, a regional intellectual property trading centre as well as a hub for arts and cultural exchange between China and the rest of the world. In addition to continuing to serve as an important node in the international circulation of our country, Hong Kong will also collaborate closely with other cities in the GBA to participate in the domestic circulation of the national economy, thereby opening up opportunities for further development. Looking ahead, with the ongoing rapid development of our country’s economy and the sustained shift in global economic gravity from West to East, there will be substantial opportunities in Hong Kong, providing room for international investors to enjoy more vibrant and diverse development.

Lastly, the Central Government has further improved Hong Kong’s electoral system for ensuring “patriots administering Hong Kong”, enabling the steadfast and successful implementation of “One Country, Two Systems” and laying a solid foundation for Hong Kong’s long-term security, stability and steady development. These changes will enable Hong Kong to maintain a safe and vibrant business environment in future, continue to capitalise on its competitive advantages and promote steady economic development in the long run.







<https://www.hkeconomy.gov.hk/en/environment/index.htm>

