PwC's Recommendations for the
Chief Executive's 2024 Policy Address

A Three-Pronged Approach to Fostering Hong Kong's New Quality Productive Forces – Executive Summary

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Executive Summary

Hong Kong now stands at a pivotal juncture with an urgency to reinforce its global competitiveness and financial strength through strategic initiatives. To facilitate Hong Kong's much-needed recovery through the development of **new quality productive forces**, PwC recommends the adoption of a three-pronged approach: recouping capital, enhancing enterprise and talent attraction, and optimising opportunities in the digital economy. These key growth pillars are prerequisite to a robust economic environment that fosters growth, innovation, and sustainability, ultimately positioning Hong Kong for a strong comeback as a city of hope and opportunities.

1. Recouping Capital: Reinforcing Hong Kong's Global Competitiveness and Financial Strength

The first strategic pillar emphasises the need to improve the liquidity and competitiveness of Hong Kong's capital markets – the cornerstone of its economic success. To achieve this, several measures are proposed:

- **Alternative Funding Platforms for SMEs:** Establishing an over-the-counter (OTC) market by The Stock Exchange of Hong Kong Limited (Hong Kong Stock Exchange) for small and medium-sized enterprises (SMEs) to raise funds will diversify funding sources and stimulate economic activity.
- **Extension of Trading Hours**: By extending the trading hours of the Hong Kong Stock Exchange, the city can enhance market accessibility and attract more investors, thereby increasing trading volume and liquidity.
- **Implementing Primary Equity Connect:** Enhancing connectivity between Chinese Mainland and Hong Kong capital markets for initial public offerings (IPOs) will facilitate cross-border investment and strengthen Hong Kong's role as a financial gateway.
- **Stamp Duty Relief:** Waiving the buy-side stamp duty will improve the competitiveness of Hong Kong as a trading hub, making it more attractive for both local and international investors.
- **Tax Neutrality for Securitisation:** Implementing specific tax rules for tax neutrality in securitisation programmes will position Hong Kong as a global securitisation centre.

In addition to these measures, creating an ecosystem for **ultra-high-net-worth (UHNW) families** and **single-family offices (SFOs)** is crucial. This includes enhancing the existing tax concessions for SFO-managed investment vehicles by expanding the scope of qualifying assets to include virtual currencies and collectibles, and relaxing the restrictions on incidental income. To solidify Hong Kong's position as a premier destination for UHNW families, consideration should be given to granting residency status to principals and immediate family members of qualified SFOs, and granting two employment visas per qualified SFO. Furthermore, by offering tax concessions to SFOs similar to Singapore's 10% rate, Hong Kong can attract more UHNW families. Additionally, regularly assessing these concessions will ensure ongoing competitiveness.

Given the current global macroeconomic environment, Hong Kong should **diversify its investor base** by exploring opportunities beyond traditional markets, particularly in regions such as the Middle East and Southeast Asia. This strategy can be exemplified by replicating its success in the recent launch of a Saudi Arabian Exchange Traded Fund (ETF) tracking Hong Kong equities, as well as establishing a robust pipeline of Public-Private Partnership (PPP) projects to attract international capital investment.

Furthermore, Hong Kong should reinforce its **financial market infrastructure** to accommodate growth and innovation, which include catering for key initiatives such as fund tokenisation and the 'retailisation' of alternative assets, will enhance Hong Kong's competitiveness as a comprehensive International Financial Centre. Lastly, Hong Kong should continue to maintain an attractive environment for **private market assets** to attract new market participants to establish operations in the city, by safeguarding and improving the conducive regulatory and tax settings already in place.

2. Enhancing Enterprise and Talent Attraction: Revitalising a Vibrant Business Environment

The second pillar focuses on revitalising a vibrant business environment through enterprise attraction and talent acquisition. Key initiatives include:

- **Integration of Strategic Enterprises into Local Ecosystem:** Facilitating the integration of strategic enterprises into Hong Kong's ecosystem will boost their commitment while benefiting local economy.
- **Regional Headquarters Tax Incentives:** Offering regional headquarters tax incentives will further entice multinational enterprises to establish operations in Hong Kong.
- **Company Re-domiciliation Regime:** Expedite the implementation of the proposed company re-domiciliation regime and extend the streamlined Certificate of Residence (CoR) issuance process to re-domiciled companies will attract foreign companies seeking favourable business conditions.
- **Tax Treaty Network:** Directing more resources to expedite the expansion of Hong Kong's tax treaty network will minimise double taxation for cross-border activities.
- **Captive Insurance Centre:** Promoting Hong Kong as a captive insurance centre involves introducing a fast-tracked licensing process for Chinese Mainland organisations with a global footprint to meet their development demand; and promoting insurance-linked securities to insurance policyholders.

Talent attraction and retention are equally vital. Improving one-stop facilitation services for businesses and their international executives will streamline processes related to visa application, housing, education, and healthcare. A more conducive environment for talent retention can be created by providing financial support for childcare services and extending tax deductions for elderly care expenses. Additionally, improving flexibility in the New Capital Investment Entrant Scheme (New CIES) and expanding eligibility for the Top Talent Pass Scheme, along with implementing effective tax measures, are key to attracting a broader pool of skilled individuals necessary for driving innovation.

3. Embracing the Digital Economy: Optimising Opportunities for Growth

Lastly, the third pillar revolves around building a smart city leveraging opportunities in the digital economy. Key recommendations include:

- **Digital Infrastructure:** Strengthening the backbone of the digital economy by integrating the CorpID platform with key data infrastructures to facilitate seamless data exchange. This includes securing commercialisation and trading of data while exploring cross-border collaborations with data exchanges in Chinese Mainland.
- **GBA Collaboration:** Strengthening Hong Kong's role in cross-border data flow within the Greater Bay Area (GBA) by collaborating on the GBA Standard Contract is also instrumental.
- **Digital Transformation Support Pilot Programme:** Broadening the Digital Transformation Support Pilot Programme to encompass more sectors is expected to enhance local business competitiveness.
- **Generative AI (GenAI) Adoption:** Deepening the adoption of GenAI across government departments to drive efficiency gains in the public sector, supercharge AI education and establish a GenAI innovation fund.
- Finally, as Hong Kong prepares for the future development of a digital economy, it is essential to establish a clear strategy for integrating **digital assets and distributed ledger technology** into Hong Kong’s financial services sector. Equally important is the expansion of the **Virtual Asset Trading Platform (VATP) regime** through broader product offerings, compliance cost management, a comprehensive custody regime and a separate OTC market for virtual assets. Moreover, initiatives to scale **fund tokenisation** in asset wealth management should be explored to address their challenges in this emerging field.

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