24th October 2022

Hong Kong (finally) reopens to the world

Over the past four years, Hong Kong's position as "Asia's financial hub" and "Asia's World City" (as the official slogan says) has suffered. The hit it took was such that many have questioned Hong Kong's viability, preferring its long time challenger, Singapore, to plan their Asian future. Needless to say, Hong Kong has been on a roller-coaster over the recent past.

Source: unsplash

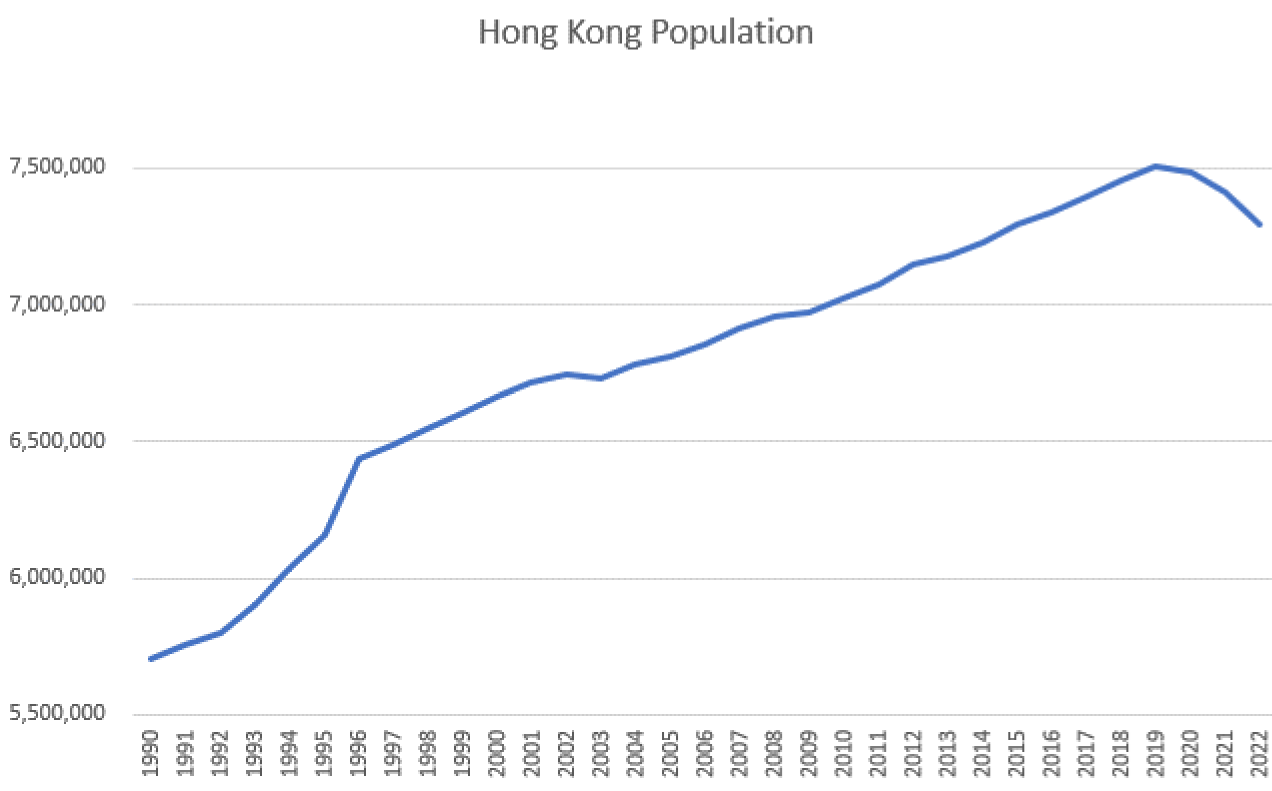
It all started in 2019 with the most violent protests the city had ever been through, when the government tried to pass a highly controversial extradition bill. Looking back at these events that we witnessed first-hand, it is a miracle that only two persons lost their lives. The crackdown that ensued left many wondering if the rule of law could still be relied on in Hong Kong and if the "One country two systems" bedrock governance principle was still to be trusted.

Then came the pandemic during which Hong Kong replicated China's zero-Covid policy. Thankfully, Hong Kong did not have to go through the most extreme measures taken by numerous cities of Mainland China. However, the Hong Kong government still imposed drastic measures, including strict hotel quarantine restrictions that carried on long after the rest of the world had moved on. Tourists disappeared, business travels became logistic nightmares and the airport saw its passenger traffic drop to 3% of its former activity as most airlines removed Hong Kong from their list of destinations.

Hong Kong has remained closed to the world, including to Mainland China, since early 2020, its seven million people feeling trapped on their tiny piece of land. The concept of Hong Kong acting as a gateway to China suddenly evaporated.

As a result, the city's talent pool shrunk considerably. Approximately 140,000 people left over the past two years for reasons relating to the crackdown on those who rioted in 2019, to the implementation of a new National Security Law that leaves little room for dissent, as well as to the strict Covid restrictions. Among those who left were tens of thousands of foreign expatriates.

This trend is particularly evident among younger people. According to government data, the number of those aged between 20 and 24 declined by nearly 15% on a year-on-year basis in Q2 2022. Many multinational corporations have temporarily or permanently relocated their staff to Singapore or Dubai to cover Asia. Many have also complained of the difficulty to attract talent to Hong Kong, potential candidates being concerned by everything that was reported, and sometimes exaggerated, in the international media.



Source: Census and Statistics Department

That was the stage in June this year when a new Chief Executive, John Lee, was appointed. His arrival was met with a mixture of apprehension and hope, the former because he was the one in charge of cracking down the 2019 protests when he was the Government's Secretary for Security, and the latter because he carried a reputation of pragmatism and "no nonsense" approach to difficult issues.

He quickly affirmed his desire to see Hong Kong re-enter the international stage and re-affirm its attractiveness for international businesses. Soon after he was appointed, he softened the damaging hotel quarantines restrictions, first from two weeks to one week, then to 3 days before finally dropping it altogether in late September. As these lines are written, inbound travellers are still subject to some restrictions for the first three days after arrival (such as no access to restaurants and bars) and an obligation to do a PCR test at T+2, T+4 and T+6. Nevertheless, the general direction is clear, and the mood has significantly improved among the population. Airlines are gradually reinstating Hong Kong in their flight schedules. Traveling is now possible.

In that context, many were eager to listen to John Lee's first Policy Address, which took place last week. In his speech, the new Chief Executive unveiled a comprehensive set of social and economic policies to strengthen the city's competitiveness and to capture new growth opportunities. Lee affirmed his intention to reboot the city's economy and international image by placing issues like talent attraction, strategic industries investments, stamp duties, public housing and pandemic control on the top of his priority list.

To reverse the talent exodus trend, the city will grant two-year visas to people earning at least HK$2.5 million ($318,521) a year, a measure similar to the one that had been previously announced by Singapore. Compared to Singapore, Hong Kong appears to be more generous by extending the visa scheme to graduates of the world's top 100 universities with at least three years of work experience. Those who do not meet the work experience requirement would be subject to an annual quota of 10,000. Hong Kong will also remove the existing requirement that consists in demonstrating that any foreign hire could not have been hired locally.

To attract companies in strategic industries such as artificial intelligence, fintech and advanced manufacturing, the Hong Kong government has pledged to set aside HK$30 billion ($3.82 billion) for establishing a co-investment fund managed by the Hong Kong

Investment Corp. In addition, the Financial Secretary is also tasked with establishing the Office for Attracting Strategic Enterprises (OASES) to lure strategic enterprises from mainland China and overseas by offering them special facilitation measures and one-stop services.

Low tax rates have long contributed to Hong Kong's inflow of wealthy foreign residents and corporations. But the same can't be said about the city's residential property stamp duties, especially for newcomers. To clamp down on speculations and prevent real estate bubbles, the city has imposed since 2013 a punitive double-stamp duty that is twice as high as the normal rate, 30% instead of a standard 15%, on property purchases made by non-permanent residents, making the world's most expensive housing market even more unaffordable. With Lee's new relaxation policy, foreign homebuyers will be allowed to have half of their double-stamp duty refunded once they become permanent residents, a status they can apply for after residing in the city for seven years.

Hong Kong's housing shortage and notoriously expensive housing have been long-standing pains for the city. All previous administrations have tried to tackle the issue but with little success. With the aim to shorten the waiting time for getting access to a public housing flat from 6 years currently to 4.5 years by 2026-27, Lee pledged to expand the supply of rental public housing by adding 158,000 units within five years, representing a 50% increase from the previous five years. The project also vows to add land supply for the development of more than 72,000 permanent homes during the same period.

On the pandemic control measures, many were disappointed that the speech didn't announce more opening measures such as the removal of the three-day "surveillance" for inbound travellers. On that subject he only hinted that more would happen when it would be reasonable to do so. This is a conundrum for the government as the aim of Hong Kong is not only to open its border to the rest of the world but also to mainland China where a strict zero-Covid policy is still in force. After eliminating the mandatory hotel quarantine to reconnect itself with the rest of the world in September, Hong Kong's border with mainland China remains hermetically closed. During his speech, Lee stated that his target was to resume normal cross-boundary travel by implementing "pre-departure quarantine", where travellers from Hong Kong would quarantine in Hong Kong before being allowed to cross the border into the mainland.

Finally, on the future of the "One country, two systems" governance principle, Xi Jinping reaffirmed last week in his opening address of the Party Congress that "One country, two systems" was the best way for Hong Kong to prosper and that it would remain in place.

In summary, Hong Kong seems to be finally going in the right direction after three years of economic turmoil. The dogmatic views of the previous administration are being replaced one after the other by a pragmatic approach to rebuild confidence, attract talent, and promote growth. The international context may make it challenging, but we are convinced that Hong Kong still has all the assets it needs to recoup its status of leading financial hub of Asia.