

## **FS's speech at Chatham House Conference in London**

Following is a speech by the Financial Secretary, Mr John C Tsang, at Chatham House Conference in London on October 16:

Ladies and Gentlemen,

Good morning.

I am tempted to start with an ageless saying known to all China experts. It goes something like: "May you live in interesting times." In the past 10 years since reunification, Hong Kong certainly has lived through some very interesting times.

These interesting times were real trials and tribulations. They included the Asian financial crisis, the SARS epidemic, two bouts of avian flu, the bursting of property asset bubble and its deflationary after-effects that lasted well over five years. On top of this, we had to navigate the complexities of our reversion of sovereignty, and work out how best to implement the unique "One Country, Two Systems" concept. There is no doubt that we had a full plate. But we did overcome this plethora of challenges that could have broken the spirit of a less resilient society.

Decolonisation and the transfer, or in our case the reversion, of sovereignty have often been messy affairs. Throughout Africa, South Asia and Southeast Asia, many countries struggled to find their feet following the withdrawal of the colonial power. Some are still struggling. Some, like India, are modernising at a great rate and emerging as major economic and political powers on the global stage. Some, like Singapore and Malaysia have also had their struggles but are now peaceful and prosperous, modern and multi-cultural societies.

Hong Kong's journey over the past decade has been unique. British administration was relinquished. The foster parents withdrew, but they continue to take great interest in what happens in our part of the world. And we continue to share and protect the value systems that became entrenched during British administration - such as the rule of law upheld by an independent judiciary, a level playing field for business, a clean and efficient administration and the free and unfettered flow of news and information.

Unlike other examples of decolonisation, though, Hong Kong was not left to its own devices come July 1, 1997. We were once again absorbed into the Chinese nation, albeit as a Special Administrative Region with our own way of life and capitalist system. We also had a fairly comprehensive guide map, our constitutional document, the Basic Law.

Over the past decade, we have come to understand more deeply what "One Country, Two Systems" actually means, and how it works in practice. Hong Kong - and by extension our sovereign, the Mainland, - has defied all the dire predictions that our fabled city would wither and die following reunification. Today, I would like to explain why they were wrong.

The number one mistake that doomsayers made was the so-called 'China factor' in Hong Kong affairs. Many in the media portrayed our sovereign in largely negative

terms. Time and reality have proven the opposite to be true. People did not understand just how serious the Central Government was in ensuring that the 'One Country, Two Systems' arrangement worked well. Nor did they understand the sense of pride, and the depth of that pride, that people in China and Hong Kong felt following the reversion of sovereignty. Nor did they understand the depth of concern and support that the Mainland authorities have for Hong Kong. So, while many were waiting to see "What will go wrong?", our sovereign and the people of Hong Kong were saying "We have to get it right." It was a different mindset that was not fully appreciated by many observers. Blood is thicker than water.

The best way to sum up the difference between 1997 and 2007 is that: "In 1997, Hong Kong was a place people left. In 2007, it is a place people go to." Indeed, in the decade before 1997, many people voted with their feet. In the decade following 1997, the human traffic has been mostly flowing the other way: towards the new Hong Kong.

Legions of former Hong Kong residents who emigrated to Canada, the US, the UK and Australia, as well as other Western countries, have returned home. Emigration is now at levels lower than it was in 1984 when the Sino-British Joint Declaration was signed.

The Central Government has scrupulously honoured its pledge to let Hong Kong people run Hong Kong with a high degree of autonomy. And when it saw the city faltering from a series of challenges, it took decisive and concrete steps to show its support for the people of Hong Kong. In the midst of our most difficult times, our sovereign was there to lend a hand. And from this baptism by fire emerged a constructive, caring and trusting relationship. A relationship that continues to evolve and grow.

In the economic sphere alone, Hong Kong has benefited enormously from greatly relaxed travel arrangements that allow individual Mainlanders to visit Hong Kong independently. Today, Mainland visitors account for over half of our inbound tourists - that's more than 12 million last year alone.

Then there is the Closer Economic Partnership Arrangement, or what we call CEPA. This free trade pact has given Hong Kong businesses and professionals WTO-plus access to the Mainland for manufactures and in 27 services sectors. This enhanced access will be expanded to 38 services sectors from January 1 next year. CEPA is also an excellent example of "One Country, Two Systems" at work because both China and Hong Kong remain separate members of the WTO, which is why we were in the unique position of being able to conclude a WTO consistent free-trade pact with our own sovereign.

Our stock market has been buoyed by a flurry of IPOs from Mainland corporations. The Qualified Domestic Institutional Investor scheme, or QDII, allowing Mainland fund managers to invest in our market has also been a positive factor. And soon, a new scheme will allow individuals in the Mainland to invest in the Hong Kong stock market. Hong Kong banks have also been allowed to conduct Renminbi business, with Hong Kong being the focus of efforts to internationalise our nation's currency. These are all positive developments that have added depth and breadth to our market.

Economic integration between Hong Kong and the Mainland is also moving ahead with great purpose. This integration process is reflected visibly in new infrastructure projects linking Hong Kong and Shenzhen. We have recently opened a new rail passenger crossing, as well as a new bridge linking Shenzhen and Hong Kong's northwestern shore. We are working with the Guangdong and Shenzhen authorities to build an express rail service between Hong Kong and Guangzhou. And we are also taking forward plans to build another bridge linking Hong Kong, Zhuhai and Macau that will greatly increase the flows of goods and people to the western part of the Pearl River Delta region.

All in all, our economy is in fine shape. We have had average growth of 7.7% for the past three years and are expecting growth of 5 to 6% this year. Inflation has been creeping up slowly, but the current rate of 1.5% is still rather benign. The appreciating Renminbi, and the falling US dollar, have added pressure on prices in Hong Kong because our dollar has been linked to the USD since 1983 and it will continue to do so. So, we're paying close attention to how inflation might impact on the lower economic strata. Unemployment is down from a high point of 8.7% in 2003 to a reasonably comfortable rate of 4.2%. Employment is at record levels. And we registered a budget surplus of more than HK\$55 billion last year. [or about GBP3.5 billion.] and it is likely for us to have a budget surplus of similar magnitude this year. All these figures make good reading for a city that has just celebrated its 10th Anniversary.

As I mentioned earlier, some things have not changed in Hong Kong over the past decade. Our core values remain intact. The rule of law has often been described as Hong Kong's defining ideology. Our press is just as vocal and openly critical of the establishment - if not more so. We remain the world's freest economy and one of the world's most business-friendly cities. We have low taxes, no estate duty, no dividends tax, no capital gains tax and minimal red tape. We have a well-educated workforce that helps run some of the world's most efficient and responsive business and financial services. Our government is clean. Corruption is anathema to us.

Since the late 1970s, when Deng Xiaoping announced the start of China's opening up and reforms, Hong Kong manufacturers have moved in droves across the boundary to set up shop in the Pearl River Delta. There are now over 60,000 Hong Kong linked enterprises employing over 10 million workers there. That is substantially more than our entire resident population of 7 million people.

As for Hong Kong, we have moved from being a manufacturing-based economy to one where services account for more than 90% of our GDP. In tandem with China's economic development and progress we have transformed from a 'Made in Hong Kong' economy to a 'Made by Hong Kong' economy. This fundamental change has entailed a corresponding change in the training and education of our workforce. We are now much more of a knowledge-based society where workers have real skill in analysis, creativity and strategic thinking, plus an international outlook. As an archetypal global city, we have to educate our citizens, who are capable of life-long learning, to face the constant challenges of the digital age. That is why our education system will be revamped by 2012, when the three-year undergraduate education becomes a four-year programme that is heavy on inter-disciplinary knowledge.

At the same time, we have introduced new immigration procedures to attract the best and brightest from the Mainland and abroad. We are looking for highly-skilled, well-educated, entrepreneurial, talented and gifted people to help enrich the fabric of our society. The educated global workforce is highly mobile and, of course, we want the flow of talents to come our way.

Now to a subject that I know many of you are interested in, and that is the development of democracy in Hong Kong.

The Basic Law promises Hong Kong universal suffrage for electing the Chief Executive as well as our Legislative Council. It also states that the road to universal suffrage should be gradual and orderly and take into account the current circumstances in Hong Kong.

For those not familiar with the current system of choosing our Chief Executive and legislators, here is a brief description.

The Chief Executive is currently chosen by an electoral college comprising 800 people. Most of these people are elected in various sub-sectors representing different groupings and interests in our society. To stand as a candidate in the Chief Executive election, a person needs to secure at least 100 nominations from Election Committee members. On election day, each member of the Election Committee votes for the candidate of their choice, and the winner is chosen by the first-past-the-post system.

The Legislative Council is made up of 60 legislators, half of whom are returned by direct elections based on geographical constituencies, and the other half through functional constituencies representing the professions and different groups such as accountants, architects, the medical profession, lawyers, IT and financial services professionals etc.

This system has progressed gradually over the past decade. For example, the first post-1997 Legislative Council included 10 members who were returned by the Election Committee, and 20 through direct elections in geographical constituencies. In the 2000 elections, this changed to 6 elected by the Election Committee and 24 by direct election. In the 2004 elections, the Election Committee seats were phased out and 30 seats were returned by geographical constituency - that is the situation we have today. So, we have been moving the process forward steadily over the past decade in accordance with the Basic Law provisions.

Since he was elected for a second five-year term this summer, our Chief Executive, Donald Tsang, has made it a priority to take forward discussions on constitutional reform. A significant part of that process is currently under way. On July 11 we published a Green Paper on Constitutional Reform.

Our Green Paper asks several key questions about the size of the nominating committee, the method for choosing the Chief Executive and the timetable to implement universal suffrage, with the earliest date being 2012 when we shall hold elections for both the Chief Executive and the Legislative Council. Similar questions

on timing and how to attain universal suffrage for the Legislative Council elections were also included.

The three-month consultation period ended just a few days ago on October 10. We are now studying the findings closely to see whether we can establish a mainstream view and take this work to the next step.

It is our goal to see universal suffrage implemented in a timely manner but in a way that suits Hong Kong's conditions and is also conducive to the development of our nation. So watch this space.

Now, I would like to talk about a couple of challenges that the government is tackling head on - environmental protection and development.

This summer we reshuffled our Policy Bureaus to better position ourselves to tackle these two issues. A separate Environment Bureau was established to focus entirely on protecting the environment. A large number of initiatives are under way, but one that I wish to mention today involves cross-boundary co-operation.

Because some 80% of the pollution in our region comes from the Pearl River Delta, which is aptly known as the 'factory of the world', we have teamed up with our neighbours there to set ambitious emission-reduction targets by 2010. Among other things, we are encouraging power companies to switch to using cleaner fuel. And we are working with businesses to show that they can actually improve profits by refining their techniques and using more environmentally friendly production methods. We should be able to meet our 2010 targets, and we are now looking beyond this date to our next stage of improvement.

Another new agency that we have set up is the Development Bureau, which has the delicate task of balancing our need for new infrastructure projects with a growing awareness that we have to protect our heritage and improve our standard of living at the same time. This bureau is headed by a recent Director-General of the London Economic and Trade Office, Mrs Carrie Lam.

By placing our development goals under the same roof as our aspirations for a better standard of living, I believe, we have the best chance of maintaining Hong Kong's reputation as not only a great place to work but also a great place to live.

Ladies and Gentlemen, I have given you a snapshot of Hong Kong, but I do hope that you will be able to visit us in the near future to see for yourselves how Hong Kong is faring as a Special Administrative Region of China. I guarantee that you won't be disappointed.

Thank you.