

## **FS's speech at TDC Annual Dinner in London**

Following is a speech by the Financial Secretary, Mr John C Tsang, at Hong Kong Trade Development Council Annual Dinner in London on October 15:

Foreign Secretary, Your Excellencies, Distinguished Guests, Ladies and Gentlemen:

Good evening.

I have three delightful duties coming to this great and happy gathering: first, to celebrate the 10th Anniversary of the establishment of the Hong Kong Special Administrative Region, second, to celebrate the close links between Hong Kong and London, and third, to celebrate the tremendous success of the Trade Development Council (TDC) in promoting better trade relations between Hong Kong and the UK.

I must first of all express my gratitude for the enormous contributions made by the far-sighted and energetic Trade Development Council leadership over the years, beginning with Baroness Dunn, then Dr Victor Fung, more recently Mr Peter Woo and now, Mr Jack So. They are representative of the super people who have made Hong Kong such a super success. Allow me to thank them for all they have done for the TDC and, by extension, for Hong Kong.

Like Hong Kong, London has undergone major visible changes since I was stationed here 10 years ago as Director-General of the Hong Kong Economic and Trade Office. While I was here, I came to really enjoy this great city, with the many enchanting gardens and parks, the collection of unique bookstores, the wide choice of museums, the fabulous walking tours, and the wide array of tempting culinary experiences. These are the things that my wife Lynn and I loved tremendously when we spent our short but very happy tour here.

Despite their vast distances, geographically and culturally speaking, London and Hong Kong do share certain common traits. They are both cities with a cosmopolitan friendly face and a welcoming global attitude. Both are world cities of the first order.

Tonight I am truly delighted to be here in London to speak with you about Hong Kong and, indeed, it is good occasion to talk about the city that we all love.

Hong Kong just celebrated its 10th birthday as a Special Administrative Region of China, and I would like to take this opportunity to share with all of you the experiences we've had since Reunification in July 1997, the many ups and downs, and the many challenges we shall face in the 21st century.

Some of you may remember the report in Fortune Magazine of Hong Kong's imminent demise. Well, I am here to tell you today the reports were wrong, totally wrong. In fact, we had a wonderful 10th birthday party on July 1. The skies over our famous harbour lit up with fireworks, watched by several hundred thousand people along the shore. Our national leaders came to celebrate with us, offering us support, encouragement, and wishing us well.

Hong Kong ten years after Reunification is in a buoyant mood. We've survived a decade of ups and downs that has made us stronger and surer of ourselves. Our feet are firmly planted on the ground, and our heads are well-positioned to see the bigger picture of challenges and opportunities that await us.

But let me tell you about our journey from Reunification to how we got to where we are today. If ever there was a roller-coaster ride, we had one!! There were many sleepless nights for me, quite a few of them as a matter of fact.

As luck would have it, no sooner had we celebrated the birth of the Special Administrative Region on July 1, 1997, then the storm that came to be known as the Asian financial crisis began its long and destructive path across the region, wiping out years of hard work and accumulated wealth. We in Hong Kong had the misfortune of being among the economies that took direct hits.

Stock markets tumbled, regional currencies collapsed, assets disappeared, and confidence nosedived. The region was in shock and went into crisis mode. As if all that wasn't enough, there was more to come. The dot com bubble burst, the 9/11 attacks took a further toll on the already fragile economies, and then came SARS and avian flu with their terribly tragic consequences.

Now, that is a long list to come out of the blue by anyone's measure. And it all struck, one after another, just as Hong Kong was adjusting to its new identity as a Special Administrative Region of China. It left us shaken, having to deal with a collapsed property sector, negative equity for tens of thousands of home-owners, and five and a half years of prolonged deflation.

We all have choices when we are faced with challenges. We can walk away from them or we can confront them head-on. For Hong Kong, walking away was not an option. The future well-being of the entire community was at stake. We held our nerve and never lost sight of the fact that Hong Kong owes its very existence to overcoming difficult challenges. The history of Hong Kong is a history of overcoming the odds. With that in mind, the community dealt with one challenge after another, confident that we would get through all of them.

Looking back now, it's still hard to believe that Hong Kong was put to the test so soon after it became a Special Administrative Region. But it's heartening to know we passed with such high marks. It's also important to remember that none of the hurdles we faced was related to the transfer of sovereignty. The early fears over Reunification never materialised. The hurdles we faced came out of the blue, thrown at us by fate. They were beyond our control. They tested not only our resolve but also the resilience of the "One Country, Two Systems" concept which is the foundation stone of the Special Administrative Region. I can assure you that the concept remained rock-hard, providing the support that we needed to take on the challenges.

It is also important to note that throughout the many troubles and tests that we faced, we remained true to our core values. Why is it so important to stress this? It is important because some people, both in Hong Kong and abroad, including people in this country, feared that with Reunification would come an erosion of our core values. Well, that did not happen, as you can all see. The rule of law is upheld by an

independent judiciary. We continue to have a clean and open government, in fact more open than ever before. Our level-playing field for business is acknowledged and applauded both in Hong Kong and internationally. We have a free and lively media, and information flow is unhindered. Our currency continues to be freely convertible. Our taxes are low and they will get lower as promised by the Chief Executive.

I am not going to throw a lot of figures at you even though I am the Financial Secretary, but there are some figures that I feel that you should know about. A picture is worth a thousand words, but figures can also paint a fuller picture of a given situation, and I thought it would be helpful to give you a comparison of Hong Kong now and the situation leading up to Reunification.

Real GDP growth was 6.9 percent last year compared to 5.1 per cent in 1997, the year of Reunification. The growth in the three years between 2004-06 was 7.7 per cent compared to 4.4 per cent in the three years up to 1997. The per capita GDP was about US\$ 27,700 last year compared to about US\$ 26,900 in 1997. Consumer price inflation was 2 per cent last year compared to 5.8 per cent in 1997. We had 25.3 million incoming visitors last year compared to 11.3 million in 1997. We had 3,845 regional headquarters and regional offices in Hong Kong last year compared to 2,514 in 1997. Just one more set of numbers! We had 9.4 million cell-phone subscribers last year, ranked among the top in the world, compared to 2.1 million in 1997. The current subscription level translates into 1.4 phones for every man, woman and child in Hong Kong. I guess we like to be in touch.

All this shows the many storms that rocked us have since subsided. All the things that made us successful in the past are once again in play -- a stable economy, a booming stock market, falling unemployment, rising assets, a strong property sector, a good balance sheet, and manageable inflation. We did not give up when the going got tough, and that has made us far stronger to face the future. We have the confidence to look at where we are and where we want to be in an ever competitive but prospering world. Of course our prized asset is our special role in Mainland China's development. Our fortunes and future are becoming more and more inter-twined.

The beauty of the "One Country, Two Systems" concept is that it allows us to do this, yet maintain our separate identity. Our relationship with Mainland China is today stronger, deeper, and broader than it has ever been. There are obvious benefits to this, coming at a time when China is the world's fastest-growing economy. Having been China's window on the world for so long, it is only natural that our role has evolved to become the nation's global financial centre. China has, in a short time, progressed from being a closed economy to being a major global force. As such, it needs a global financial centre to serve its needs. Hong Kong best fits the bill for this role. Just recently, China confirmed our role in its latest economic blueprint, the 11th Five-Year Plan.

Our aim is to service the inflows from around the world into China, and the outflows from China and the region. To do that efficiently, we need to expand our tried and trusted financial institutions on the Mainland, and the best way to do that is through our free trade agreement with the Mainland, known as the Closer Economic Partnership Arrangement or CEPA which will be expanded from 27 service sectors to 38 at the start of next year.

We also need to play a bigger role in the outflow of funds from the Mainland. Our stock market is the perfect channel for the Mainland's domestic liquidity. A recently-announced pilot scheme allows Mainland individuals to directly buy Hong Kong stocks, and final details are being worked out. Hong Kong must also further develop our handling of transactions in Renminbi, China's currency, which is fast gaining in stature as the country's importance grows. Thirty-eight Hong Kong banks now offer Renminbi services under a scheme that began in 2004. In June, Hong Kong became the first and only place outside the Mainland to operate a Renminbi bond market. We have made three issues so far, totally 10 billion yuan.

There are those who say that by tying our fortunes to the Mainland, and by competing with fast-modernising Mainland cities, we are becoming in effect, just another Mainland city. Well, they are wrong. Hong Kong has always been an international city and we will continue to be one. It is in our interests and in the interests of the country that we hold on to the special identity that has served us so well for so much of our history. We have an irreplaceable role to play in China's development. We need to look to the Mainland for our future. Yet at the same time we fully intend to live up to our role as Asia's World City. That is also our future. The two roles are not mutually exclusive.

It is a good time to be celebrating our 10th year as a Special Administrative Region of China. The global economy is relatively stable. The Mainland is, of course, booming, and our other trading partners are also enjoying economic growth, helping to offset somewhat the effects of the sluggish US economy.

But we know we must stay ever vigilant. The many hurdles we faced in the past decade has taught us that. The global economy is becoming crowded with new competitors even as it throws up new opportunities. Some at home and abroad fear that we will become marginalised. Things are tougher, I will admit. But what the skeptics don't see is that as more people compete for a share of the global pie, the pie itself is also growing bigger. We are well-positioned to hold on to and even increase our share by further developing our strength as a services based economy that offers added-value, and by cementing our role as an indispensable factor in China's development.

But we must keep a close watch on trouble areas like protectionist sentiments caused by the hiccups in China's trade relationships over such things as the ballooning trade surplus in China's favour, and the recent troubles involving the "Made in China" brand. We believe these issues should be dealt with through proper trade channels, like the WTO, rather than through unilateral protectionist policies.

There are also a number of domestic issues that needs close watching. Inflation is one such area. It is still at a moderate level, given the overall growth of our economy, but it remains a worry, and we are mindful of it. Hong Kong also has a problem with air pollution, as I am sure most of you know. The community is impatient for the government to fix it, and we have heard the message loud and clear. The pollution is caused by a combination of industrial activity in the Pearl River Delta Region and power plants and vehicular emissions in Hong Kong. Cleaning up the air is a top priority for us, and the Chief Executive of Hong Kong has made clear he will spare no

effort to deal with the problem. On the political front, we have consulted the public on the direction of political reforms and these views are now being assessed. Our intention has always been to follow a path that wins the support of the community, the legislature and the Central Government in accordance with our Basic Law.

Ladies and Gentlemen, the story of Hong Kong is no longer about how we would fare as an SAR of China under the "One Country, Two Systems" concept. We are now in the 10th year of Reunification. These past ten years have shown we have done well despite the many challenges thrown our way. The "One Country, Two Systems" concept has lived up to the task it was set. Early doubts have now been put to rest. The new story of Hong Kong is how this city of seven million people would fare in the 21st century in fulfilling its role as China's global financial centre and Asia's World City. I am confident that Hong Kong will rise to the challenge. And I trust that you are too.

Thank you.