

Financial Secretary's speech at Hong Kong Association (English only)

Following is the speech by the Financial Secretary, Mr John C Tsang, at the Hong Kong Association in London today (June 3):

Vice Chairman (Mr Henry Keswick of Matheson & Co. Ltd.), esteemed guests, ladies and gentlemen,

Good afternoon.

I always have a sense of deja-vu when I come back to London. I made many friends here during my posting in the late 1990s, and it's always a pleasure for me to come back to see so many familiar faces, and to greet some new ones too.

It makes it even more of a pleasure when I know that these friends are so committed to the continued success of Hong Kong. I thank you for your work in the past and your interest in and support of Hong Kong.

As you all know, there have been times in the past decade when Hong Kong has been put to the sternest test. Take for example, the Asian financial crisis, SARS, avian influenza.

At times it was pretty dire and seemed as though we might drop off the global radar screen of international cities. But Hong Kong has taken each and every challenge in its stride, and is now doing pretty well.

Of course, different people measure success in different ways. As Financial Secretary, I was fortunate to be able to announce a record surplus in my first Budget in February. Our most recent figures put the surplus at over HK\$123 billion, or around GBP8 billion. Our first quarter GDP figures showed that the economy grew by 7.1%, which was above market forecasts. Both of these statistics are welcome signs of a healthy economy.

The good thing about having money in the coffers is that it affords the opportunity to plan a little further ahead than may otherwise have been possible. We are able to think about new areas of potential for the city, as well as better prepare ourselves for the expected challenges ahead.

Some of the challenges on our horizon include increasing competition, advancing our role as an international city in China, and coping with an ageing population.

An ageing population is on the "watch list" for many cities around the world, London and Hong Kong included. We have to find solutions that meet our own unique circumstances. For example, there is bound to be extra strain on our health care system in Hong Kong, which continues to run along similar lines as the system here in Britain.

In March, we launched a public consultation on health care reform. The first stage of the consultation ends next Friday. We will then narrow down the options before a second stage consultation next year.

We will press ahead to forge a consensus on health care reform and financing. I have already set aside HK\$50 billion or some 3.3 billion pounds from the fiscal reserves to help implement these reforms.

In parallel, we are strengthening our private health care system and working on ways to expand services, such as providing land for new hospitals to be built. I believe we have an opportunity to act now to ensure that our health care needs do not become a burden for future generations.

Another area that is occupying our minds is protecting the city's cultural heritage. Our historical buildings and sites reflect the city's vibrant mix of cultures and influences. There is a passion in the community to preserve these old buildings so that they continue to be a feature of the city.

We aim to take this a step further. As well as preserving old buildings, we also want to revitalise them for people to use as well as to admire.

A good example of this is a wine cellar, which opened recently in Shouson Hill on Hong Kong Island. The original building was constructed some 70 years ago by the British military to store ammunitions and weapons in preparation for war. With some foresight, the area has been transformed into a wine cellar for all to enjoy.

This brings me to my next point, developing new opportunities for business.

In April, the munitions store-turned wine cellar in Shouson Hill was the venue for a wine auction. It was the first such auction in Hong Kong since duties were removed from wine and beer in the Budget in February.

The event, organised by Bonhams, was a great success and that bodes well for the future.

Introducing zero duties on wine is about more than becoming an attractive venue for auctions. It was about developing our city into a wine storage, distribution, exhibition and trading centre in Asia. This will create jobs and wealth for Hong Kong.

I am confident we have what it takes in terms of infrastructure, logistics and expertise, to play a leading role in the development of the industry in a region that is acquiring quite a taste for fine wine.

Another relatively new venture that is making good progress is the development of a market for Islamic finance in Hong Kong.

With estimated assets under management of between US\$700 billion to US\$1 trillion, there is no doubting the potential for developing Shariah-compliant products in Hong Kong.

We already have a well-developed financial system with deep and liquid capital markets and a sound regulatory regime.

Early indications are positive. In November last year, the Securities and Futures Commission authorised the first retail Islamic fund in Hong Kong. In the first week it raised more than US\$20 million, and a few weeks later – at year-end – the fund had grown to US\$62 million. I understand that there are more issues of various shapes in the pipeline.

I have covered just a couple of things we are doing to keep Hong Kong on its toes and ahead of the competition.

But our real strength continues to be our close collaboration with our nation.

It was almost a year ago to the day (on June 5th 2007) that the Hong Kong Association gathered to mark the 10th anniversary of Hong Kong's reunification with China. At the time we were busy in Hong Kong finalising preparations for the third term Government to be sworn in.

These days we are just as busy preparing for our role this summer as a co-host city of the Beijing Olympics.

In a little over two months, the 2008 Olympics will be underway in China for the first time. And Hong Kong will join an elite club of Olympic co-host cities as we stage the equestrian events of the Games.

Our high-profile involvement in our nation's proudest hour is hugely significant for Hong Kong. Indeed, it highlights several issues that are vitally important to the success of our city.

First, it showcases our close integration with the Mainland of China.

Second, it is a good example of "one country, two systems" at work. We are both a co-host city for the Beijing Games and we will have our own team and our own Special Administrative Region flag at the Olympics.

Last but not least, the Olympics are arguably one of the best examples of globalisation. Athletes from all corners of the world compete against each other under the same rules. Hong Kong would be a medal contender in the sprint towards developing a globalised economy.

Let me take the last point first.

You may be familiar with the term "Nylonkong". If not, let me briefly explain. It was a name coined by TIME Magazine earlier this year, placing Hong Kong alongside London and New York as the best examples of globalisation.

As the youngest "modern" city in the group, we may have a little catching up to do in some of the soft infrastructure areas, such as arts, culture, creative industries and urban revitalisation. But, we have come a long way in these areas in just a few years and they hold great promise. We already enjoy superb global connectivity. We follow international best practice in business and finance and management. So, there is huge

potential for Hong Kong in the Asian time zone – midway between London and New York.

At the same time, and this brings me to my second point, Hong Kong continues to enjoy the unique characteristics that set us apart from other cities in China.

The “one country, two systems” formula for reunification is working well. Hong Kong people continue to run Hong Kong with a high degree of autonomy. We have retained our capitalist system. An independent judiciary underpins the common law legal system. Freedoms such as freedom of assembly, freedom of religion, freedom of speech and a free and unfettered media remain the lifeblood of our society.

One area of particular interest these days is Hong Kong’s political development.

We now have a clear timetable for attaining universal suffrage: that for our Chief Executive is 2017, and that for the Legislative Council is 2020. This was confirmed by the Standing Committee of the National People’s Congress in December last year. Our Chief Executive has made it a top priority to see that we can generate the consensus needed in the community to attain these goals.

Although we have different legal, political and economic systems to the rest of our nation, there is increasing cross-boundary integration and co-operation.

More Mainland tourists are coming to Hong Kong, taking advantage of the individual cross-boundary travel arrangements. Last year, more than 28 million tourists visited Hong Kong, with over half coming from the Mainland.

Our two financial systems are becoming more interlinked. Virtually all retail banks in Hong Kong offer renminbi services. A renminbi bond market was launched last year with three issues valued at some 10 billion yuan, or about 735 million pounds. More issues are expected this year.

We also have our unique free trade pact – CEPA which was launched in 2004 and continues to be one of our biggest advantages over our competitors in Asia. At the start of this year, CEPA was expanded to include 11 new services areas taking the total number to 38. These include key areas such as banking, logistics, conventions and exhibitions, professional services and tourism.

We also have the Pan-Pearl River Delta initiative, which seeks to break down barriers to trade and strengthen co-operation between the nine provinces in southern China as well as the Special Administrative Regions of Hong Kong and Macao. The potential of this south China economic caucus is huge, with a population alone of some 470 million – about the same as the EU, and all in our own country!

But, now is not the time to sit back and admire the view. Now, more than ever, is a time for action and forward planning.

Many companies across the boundary are concerned about issues such as rising costs and a shortage of skilled labour. The Hong Kong government has a whole range of measures to assist Hong Kong enterprises in these areas. These include helping to

upgrade the processing trade and studying the feasibility of enterprises relocating from Guangdong to central areas of the Mainland.

This does not mean that our neighbouring province of Guangdong is a lost cause, far from it. In his first major speech as Guangdong party chief last December, Wang Yang spoke enthusiastically about his ambition to reinvigorate the province. He spoke of revitalising Guangdong's status as a pioneer in our nation's reform process, which began back in 1978.

As China enters a new phase of opening up and reform, Hong Kong is, once again, well placed to play a leading role in the process.

So ladies and gentlemen, when the cauldron is lit in the Bird's Nest stadium in Beijing on August 8th, we will be cheering for Hong Kong, we will be cheering for China, and we will be celebrating the Olympic spirit of friendship, unity and fair play.

When the curtain comes down on the Beijing Games, the baton will be passed to London. I would like to take this opportunity to wish London well in its preparations for the 2012 Olympics.

But most of all, on this occasion, I wish to thank you all for your ongoing support of Hong Kong.

Thank you.

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