

LSE and LSE SU Hong Kong Public Affairs Society lecture

A lecture by Donald Tsang, Chief Executive of Hong Kong

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Distinguished guests, students, ladies and gentlemen,

It is a great pleasure to be back in this great city, and to have the chance to speak at this esteemed seat of learning. Thank you for inviting me here.

Today, I would like to say a few words about Hong Kong, and what the future holds for us. Although these are uncertain times for many people around the world, I am confident that we are on the right track. I will tell you why.

I know the LSE's motto is "To Know The Cause of Things". Well, I will leave it to you to guess the cause of the global financial crisis. I'll start with what we are doing in Hong Kong to ride out the storm.

As is the case in the US and Europe, economies in Asia are facing the risk of recession and rising unemployment. The International Monetary Fund has predicted a global recession next year, including the first annual recession for advanced economies since the end of the Second World War.

We have introduced both short and long-term measures to tackle the inevitable downturn and pain - and to pave the way for sustained development.

In October, for example, we introduced two precautionary measures to boost confidence in the banking sector at a time of great volatility elsewhere in the world.

First, we guaranteed all Hong Kong Dollar and foreign currency bank deposits until at least the end of 2010. Second, we set up a Contingent Bank Capital Facility to help ensure the liquidity of the local banking sector. Both measures have worked well - so well in fact that we have seen upward pressure on the Hong Kong Dollar's exchange rate with the US Dollar.

Overall, our banks are in pretty good shape. Capital adequacy ratios have always been very healthy, and at the moment stand around 14%, which is well above the international standards.

We are also continuing to strengthen the supervisory framework for liquidity risk management, and to encourage more disclosure of risk information. This will help banks weather future financial shocks, and facilitate the public to make informed investment

decisions.

As the impact of the financial crisis is likely to last for some time, we need to prepare for the worst while hoping for the best.

Two weeks ago, I chaired the first meeting of our new Task Force on Economic Challenges. Our task is to assess the effect of the financial crisis on markets around the world and to gauge its impact on Hong Kong. Then, we will propose ways to address these challenges, and identify opportunities that will enhance the competitiveness of our businesses and our city.

This brings me to another point: Where do our brightest opportunities lie, and how do we make the most of these opportunities?

In many ways our best opportunities are similar to those of a decade ago - financial services, business services, logistics, tourism. But our biggest single advantage - the scope and extent of our China contacts and interests - has also grown considerably in that time.

We have a unique free trade pact with the Mainland, our Closer Economic Partnership Arrangement, or CEPA for short. CEPA was launched in 2004 and gives companies in Hong Kong - including foreign firms incorporated in Hong Kong - easier access to opportunities in China, especially in the services sectors.

In 2004, we also launched Renminbi banking services, and last year we became the only place outside the Mainland to offer Renminbi-denominated bonds. Currently some 440 Mainland enterprises are listed on the Hong Kong stock market which, at end-September was the 7th largest in the world and 3rd largest in Asia with market capitalisation of more than US\$1.6 trillion.

Financial services aside, our close connectivity with the Mainland also covers world-class transport, logistics and telecommunications infrastructure.

In the next few years we will do even more to boost this connectivity. We will speed up a number of large-scale infrastructure projects that will straddle our boundary with the Mainland. These include the Guangzhou-Shenzhen-Hong Kong Express Rail Link that will connect Hong Kong to our nation's high-speed rail network. In 2010, we expect to begin construction of a 29-kilometre bridge connecting Hong Kong with the Special Administrative Region of Macao and the city of Zhuhai in the Pearl River Delta region. We are planning another boundary crossing point. And we are looking at a joint development along our boundary with Shenzhen, with a focus on R&D, creative industries or educational uses.

We are also pushing ahead with eight other major infrastructure projects that will improve connectivity within our city, enhance our global competitiveness, and generate some 250,000 new jobs at a time when we expect the labour market to be feeling the

pinch from the global financial crisis. There will be a boost of about 7% in the labour market.

We have no plan to cut back on public spending at this time. Government spending programmes can reduce the impact of the economic downturn by channeling money back into the community to stimulate demand for goods and services and keep the wheels of our local businesses well oiled.

This is only part of the story.

Hong Kong also has a growing role to play in the global village as a co-ordinator of trade and investment flows, and a knowledge bank of international best practice.

Tomorrow, I will leave London for Peru to take part in the annual APEC Economic Leaders' Meeting. No doubt the financial crisis will be the main talking point.

Hong Kong's participation as an individual member of APEC shows how Hong Kong has retained its identity and way of life under the "One Country, Two Systems" formula for reunification with the Mainland of China.

We also remain a member in our own right of the World Trade Organisation, and the World Customs Organisation. We have retained our own freely convertible currency that has been linked to the US dollar since 1983. We follow the common law legal system based on the English system. We negotiate our own trade and air services agreements.

And, we maintain our own close ties with major trading and economic partners, such as the UK, the US and the EU. And that's the reason why I am here in London.

During my meeting with Prime Minister Brown yesterday, we agreed that London and Hong Kong both have a leading role to play in overcoming the global financial crisis. We also see the need for more contact and co-operation between our financial regulators to reach a consensus on the long-term international financial infrastructure and regulation.

Our two great cities are inextricably linked, not only by history but also by the current geo-economic landscape. Both London and Hong Kong are world cities and global financial centers that have flourished as a result of globalisation - a process that has generated more competition, as well as uncertainty and volatility.

Like London, Hong Kong has thrived on competition. And we will continue to embrace it by playing to our strengths, which include an unswerving commitment to open markets and free trade, and to maintaining the free flow of ideas, information and capital.

We adhere to the principle of "Big Market, Small Government". For us that means containing public expenditure to below 20% of GDP as far as possible. The less the government intervenes, the more that is left for the private sector to contribute to GDP.

And we will keep a low and simple tax regime. Salaries tax is no more than 15% and profits tax is 16.5%. There is no GST, no VAT, no death duties and no capital gains tax.

These are factors that have helped attract more than 6,600 overseas and Mainland companies to come to Hong Kong. Almost 4,000 of these companies run their Asia operations out of Hong Kong - that's 50% more than we had in 1997. Among them, some 350 UK companies with regional operations, and a further 160 with locally-incorporated offices. And about 70 more are at different stages of establishing their offices in Hong Kong.

Earlier I spoke of keener competition, and that includes competition to attract the best and brightest talent from around the world to live and work in our city, and to contribute to our vibrancy and development.

Today, it takes more than a great job and the allure of Asia to broaden and deepen our pool of talent.

We also need a clean and healthy environment, plenty of cultural activities, and space to escape the hustle and bustle of the city. Most people associate Hong Kong with the shimmering new skyscrapers that line our iconic waterfront; or they know the city as a shopping paradise. But this is not the full picture.

Some 40% of Hong Kong is made up of country parks that are popular with hikers and beachgoers. And because Hong Kong is such a compact city, we are never far from nature. Of course, we also have several options for those who prefer to ruin a good walk with a game of golf - including one of the world's most spectacular and popular public golf courses.

There is also plenty of choice when it comes to schooling options - for the kids of professionals, or for those looking for academic engagement in Asia. We have a vibrant international school sector with more than 50 international schools - the most comprehensive in Asia.

But, we also want more overseas students to come to Hong Kong to study at any one of our world-class universities. We have recently relaxed restrictions on the number of overseas students in universities to help attract more talent, and to provide students with a more diverse learning environment. We have also relaxed the rules so that overseas students may remain in Hong Kong after their studies for up to one year without restriction to give them plenty of time to find a job.

I know there are a number of students from Hong Kong here today. I hope you are enjoying the valuable experience of studying in one of the great capitals of the world. Whatever path you decide to take after your studies, I can assure you there will always be a warm welcome for you back home, as well as some exciting opportunities to develop your careers.

Ladies and gentlemen, in August this year, Beijing handed the Olympic baton to London as you gear up to stage the 2012 Summer Games. I wish the city every success in its preparations, and congratulate the British athletes on their achievements in Beijing this summer.

Hong Kong had the honour of staging the Olympic and Paralympic Equestrian Events of the Beijing Games. The British teams did well - taking away the team bronze medal in the Equestrian events, while British Paralympic rider Lee Pearson won an incredible three gold medals.

Our high-profile role in the first Olympics in China was another sign of our nation's trust and confidence in Hong Kong - not only as a major city in China but also as Asia's world city.

Ladies and gentlemen, our door is open, so do come and visit us or return home soon. Whether you come to study, work, shop or swing a golf club you will be most welcome.

Thank you.