

## DGL's speech to the Royal Society for Asian Affairs in London

\*\*\*\*\*

Following is the full text of the speech (English only) by the Director-General of the Hong Kong Economic and Trade Office, London, Mr Andrew Leung, at a lecture organised by the Royal Society for Asian Affairs today (March 20, London time):

HK: Paradigm Shifts with Changing Economic and Political Horizons

-----

Chairman, ladies and gentlemen,

First of all, may I say how honoured I am to address such an august body as the Royal Society for Asian Affairs.

When I was a boy, I remember, how my father's small import/export business in Hong Kong was ruined by the Korean War embargo. When I joined the Hong Kong Government in January 1967, Hong Kong was in the grips of the spill-over of the Cultural Revolution in China. I remember, in the interim years, the gritty spirit of Hong Kong amidst the water-rationing and the proverbial '8-member family living with one single bed'. I remember the severe stock market crash in 1987, when the Hang Seng Index nose dived within a fortnight. I remember how the 1997 jitters turned to euphoria as Hong Kong seamlessly became a new Special Administrative Region of China. I remember the subsequent shock of the Asian financial storm. And the hopes enkindled by China's accession to the World Trade Organisation (WTO).

But I am not here to chronicle Hong Kong's vicissitudes. I think it would be more interesting to analyse some of the more salient changes through the years in Hong Kong's undercurrent - economic, political and social. The sort of 'paradigm shifts' which, as I see them, helped shape the HK of yesteryears, today, and of the future. It would be interesting to comment, in other words, on 'where the cheese has moved?'(1).

Economics

The first paradigm shift was in the early 50's as first-rate entrepreneurs from Shanghai and cheap immigrant labour from Guangdong helped HK move quickly to become a manufacturing and trading haven under a separate, albeit colonial, capitalist regime. Our textile industry flourished, followed by plastics and electronics. But the Mainland remained generally off-limits.

Under Deng Xiaoping's Open Door Policy in 1978, suddenly the whole Pearl River Delta became a green pasture for export-oriented manufacturing with abundant land, low cost and cheap labour. Virtually all of Hong Kong's factories gradually shifted across the boundary. Together with our excellent business environment, this helped Hong Kong to grow into one of the leading trading entities in the world. Today, Hong Kong employs more than 5 million workers in 40,000 enterprises in Southern China

and trade accounts for some 220 per cent of our GDP as we move into the 9th position(2) as a trading entity in the world.

At the same time, in place of manufacturing, banking and financial services have developed under our free economy. Hong Kong is now a world-class financial centre with a diversified and expanding regional and international portfolio. As a result, the service sector accounts for more than 85 per cent of our GDP.

At the same time, momentous changes have been germinating on the Mainland front. The flourishing of manufacturing in the Pearl River Delta has attracted rapidly increasing Foreign Direct Investment (FDI) and the expanding globalisation of world markets has helped to boost its manufactured exports to all parts of the world. As China moves up the quality and technological ladder, it has fast been becoming the Factory to the World, producing anything from shirts to DVDs. It has become so competitive that one after another, multi-national consumer manufacturing corporations like Hitachi and Toshiba have been moving a significant part of their integrated electronics production to China.

It is becoming difficult for China's neighbouring countries to compete on costs alone as all it takes is to move the factory further inland, say by half an hour's car journey, and the resultant lowering of costs could be dramatic. Don't forget China is about 18 times the area of France.

Another dimension of these momentous changes is the rapid growth of a critical mass of a huge internal market, supported by rising disposable income of an expanding middle-class who now attracts Starbucks and TGIF in Beijing, Ikea in Shanghai, and Wal-Mart in Shenzhen.

What is China's market potential? The afore-mentioned developments are largely concentrated in the Pearl River Delta, certain cities along the eastern seaboard such as Dalian, Shanghai and Guangzhou as well as cities along the Yangtze River from Wuhan to Chengdu, covering a total of probably a fifth of China's population. But the pace of development is almost breathless, especially in the wake of China's accession to the WTO. There is also the stated imperative to develop the North-West, which accounts for 70 per cent of China's land but only 30 per cent of the population. The size of China's market is estimated at about US\$1.2 trillion, growing at a rate of about 7 per cent per annum over the next 5 years, so that by 2005, it is expected to equate to one-third of Japan's projected GDP.

The remarkable feature of such developments is that Hong Kong has been playing an extremely important part. We are the Two Systems of that One Country. Our capitalist and free economy(3) and our independent rule of law are as robust as ever. Our position as a world-class financial centre and logistics hub are exemplary. When I was addressing international investors in the late 1980's, Hong Kong was already vying with Rotterdam as the world's premier container port. Now, according to a recent survey, Hong Kong is indisputably No.1 and six places ahead of Rotterdam in the world league table.

All these explain why Hong Kong has accounted for 50 per cent of total FDI in China (estimated stock US\$400 billion) and why last year, total FDI in Hong Kong of

US\$64 billion exceeded that in China (US\$46 billion). They also explain why the number of regional headquarters and offices in Hong Kong registered a 10 per cent increase totalling over 3,200 in spite of the recent global economic downturn.

Added to our world class business environment are our pool of expertise, in finance, international commerce, law, accounting, insurance, marketing, freight, and logistics, built up over the years with business networks commanding a high level of confidence both in the Mainland and internationally. These networks have become even more important as China grapples with the process of re-structuring of State Owned Enterprises (SOEs), improving the degree of corporate governance, and streamlining business systems and procedures in compliance with WTO rules.

Indeed, the Mainland authorities have become even more proactive in making use of Hong Kong's excellent financial services to expand more reliable investment outlets for the huge public savings in the Mainland. Imaginative proposals are being actively considered, such as Qualified Foreign Institutional Investors (QFII) and permitting the handling of RMB-denominated deposits in Hong Kong. This would further the strategic role of Hong Kong in expanding the scope and international dimension of the financial market in the Mainland.

Hong Kong's interactions with China have therefore progressed by leaps and bounds. Every year, there are already some 120 million pedestrian travellers and over 10 million vehicle trips across the boundary. We are embarking on a vigorous programme to enhance even further our infrastructural links with the Mainland, including the streamlining of cross-boundary facilities, increased operating hours, the use of smart-card technology, and the development of further rail and road links including a magnetically levitated train cutting journey time to Guangzhou to half an hour.

In addition, the HKSAR Government is opening up an Economic and Trade Office in Guangzhou and the Hong Kong Productivity Council is expected to set up shortly centres in 9 cities in the Pearl River Delta to service Hong Kong entrepreneurs.

A further phenomenon of such growing interactions is the fact that every weekend, and especially over long public holidays, tens of thousands of Hong Kong people go across the boundary into nearby cities and towns in the Pearl River Delta for shopping and recreation. More recently, a huge job fair in Hong Kong, organised for the first time by Mainland organisations to attract full time supervisory and managerial staff from Hong Kong, attracted thousands of applicants. Moreover, following Hong Kong's economic downturn in recent years, some of the unemployed or retrenched workers and some struggling small businesses in Hong Kong have managed to metamorphose into small but successful retail and other businesses across the boundary.

On Hong Kong's part, we need to absorb more of the cream of talent from the dynamic generation in the Mainland if we want to be even better equipped for our strategic role in tapping the Mainland market, particularly in areas where Hong Kong has a relative shortage. So, in his first Budget Speech on March 6, our new Financial Secretary alluded to designing a suitable admission policy.

To complete the economic picture, I should also mention the Financial Secretary's fiscal policy in dealing with HK's largest budget deficit(4) in decades. He is capping future government expenditure growth to half (1.5 per cent) of the trend GDP growth rate of 3 per cent and is bringing back such expenditure from 22 per cent to within 20 per cent of GDP by 2006/2007. He also underlines a shift from a dependency on land revenue to more broad based growth, expected from Hong Kong's increasing strengths in financial services, logistics, tourism and professional services.

### Social dimensions

As a result of these increasing interactions, Hong Kong's family profile has become even more 'geographically extended'. As Hong Kong is a leading international business hub, many Hong Kong Chinese families have already had various overseas linkages. Their children may be studying abroad or their relatives have long been established overseas. Increasingly, more families may have their working members spending long periods at a stretch in the Mainland. Some have even chosen to live there (to take advantage of the much lower costs), but close to the boundary in order to commute to work in Hong Kong.

Realizing the need to equip themselves even better to tap into the Mainland market, more and more Hong Kong citizens are learning or brushing up on their Putonghua. There is a general enthusiasm to visit and become more familiar with the Mainland. And more and more Hong Kong citizens play golf in the Pearl River Delta or spend a recreational weekend in Shanghai. Similarly, the community has grown more accustomed to seeking more Mainland visitors. Indeed, Hong Kong's tourist industry has recently rebounded, owed in no small measure to the rising number of Mainland tourists, with a high average expenditure per stay.

Yet, far from losing Hong Kong's own identity, there is a pervasive realization of what One Country, Two Systems means. That Hong Kong is different, with our own rule of law and a very free society. That this is very precious as we master the high degree of autonomy given us by our constitution (our Basic Law) to charter our own destiny.

The consciousness of being our own masters also manifests itself in more awareness of the need to safeguard our natural environment. A major railway project has recently had to be re-designed at much higher costs to avoid potential damage to wetlands. This also reflects the community's continuing drive for higher quality of life.

### Politics and governance

In the mid-70's, I was working as a civil servant in the former 'Office of the Unofficial Members of the Executive and Legislative Councils', providing administrative support to Councillors, who were all appointed. Government policies and proposals then were sometimes questioned but seldom opposed. With more representative government introduced in the early 1990's, leading to fully elected legislature in 1995, (albeit including a high proportion based on 'functional constituencies'), the government has been subject to much closer scrutiny and balancing check, helped by an ever free press. After Hong Kong has become a Special Administrative Region, debate in the

Legislative Council has grown to be even more robust, including sometimes merciless opposition to or criticism of the government.

Unlike in the former colonial days, there has been increasing expectation and proactive demand in the community for a more transparent, accountable, and responsive government. As all but the Chief Executive in the Administration are career civil servants, there is a pressing need for them to 'sell' their policies and proposals to the public as well as the political parties, none of which has elected or needs to back the government. Accordingly, the Chief Executive has announced his intention to introduce in the current year a form of 'ministers' outside the civil service, who would be politically appointed and answerable to him for the duration of his political tenure.

As a result, there will be a sea change in the culture of the civil service, as the new-styled 'ministers' take full political responsibility for the success or failure of their policies. There will be much more flexibility in the redeployment of resources within their own portfolios. Their agendas will become more targeted and focussed. They will have to 'front up' for their policies more often by directly galvanizing the support and rapport of the legislature as well as the public at large, who are becoming more proactive and demanding of results. Managing a famously aggressive media would involve greater skills on a daily basis.

As for the political parties, it is noticeable that before the magic date of 1997, much of the winning political agenda was focussed on almost the single issue of greater democracy. After a smooth transition of sovereignty, this has proved increasingly insufficient to win more votes. The outcome has been that all parties are targeting livelihood issues, although the situation would continue to evolve as Hong Kong moves nearer to 2007, when under the Basic Law, Hong Kong can decide how to elect the Chief Executive(5).

## The Future

Thus, Hong Kong has come a long way. From 'a barren rock, with hardly a house upon it'(6), to Asia's World City, with a modern skyline featuring some of the world's leading architectural landmarks, soon to include the world's 5th Disneyland and the world's largest indoor entertainment and cultural complex(7). From an economy based on the textiles industry to a world-class financial centre and business hub. From an outpost at arm's length with the Mainland to a proactive pivot to leverage the China market. From 'Borrowed Place, Borrowed Time'(8) to growing pride in being the freest economy on earth as China's Special Administrative Region, poised to take on the world's largest growth market in the 21st century.

Indeed, as recently as March 15, Premier Zhu Rongji was quoted as saying that HK has shifted from a supplier of finance and technical skills to piloting and promoting China's globalisation through higher value added. Hong Kong's greatest strategic advantage lies in leveraging a proven and successful blend of western-styled society with Chinese cultural characteristics. A unique blend in a business hub in which both the East and the West have confidence. Thus, Hong Kong is the rest of the world's golden key to the China market. It is also China's golden key to the rest of the world.

Thank you.

-----

Footnotes

- (1) 'Who Moved My Cheese?' by Dr Spencer Johnson
- (2) 6th position, if EU is counted as one entity.
- (3) The Heritage Foundation has voted HK as the freest economy in the world for 8 consecutive years up to now.
- (4) HK\$ 65.6 billion, or 5.2 per cent of the GDP.
- (5) Currently elected by an electoral college of 800 individuals under the Basic Law.
- (6) Lord Palmerston, Foreign Secretary, 1841, on possession of Hong Kong as a British Colony.
- (7) To be built in West Kowloon. A recent international architectural competition in HK chaired by Lord Rothschild has chosen a stunning glass enclosed design by Foster & Partners as the winner.
- (8) "Borrowed Place, Borrowed Time: Hong Kong and its Many Faces" by Richard Hughes

End/Thursday, March 21, 2002

NNNN