

Speech by CS at seminar on "Hong Kong in the Asia-Pacific Region - Issues and Opportunities" (English only)

Following is the speech by the Chief Secretary for Administration, Mr Henry Tang, at the seminar on "Hong Kong in the Asia-Pacific Region - Issues and Opportunities" today (November 23):

Professor Lau Siu-kai, Professor Wong Siu-lun, Professor Wang Gungwu, Professor Jusuf Wanandi, distinguished guests, ladies and gentlemen,

Good morning. It is a pleasure to be here today, addressing such a distinguished audience. For decades, Hong Kong has been serving the region as a hub for trade, investment and logistics. We are both a competitor and a collaborator with our neighbours in the Asia Pacific, in the pursuit of a stable and healthy economy. Your challenge will be to identify the issues facing Hong Kong in its regional development, and how best to grasp the opportunities that lie ahead.

Hong Kong has long been a key player in this region, the figures speak for themselves. Last year, about 84% of Hong Kong's external trade was conducted with the other 20 member economies of APEC. The value of goods that routed through Hong Kong in 2006 amounted to nearly 20% of the total bilateral trade value between the Mainland of China and ASEAN. These figures not only confirm Hong Kong's status as a regional business hub, but also demonstrate the important intermediary role that Hong Kong plays.

While Hong Kong grows with the region, it also changes with the region. There is a recent article by a young scholar, who grew up here and is now working in Singapore, on the changing economic relations between Hong Kong and ASEAN countries. By combing through data on trade and investment, the study shows that Hong Kong has gradually shifted its role since the mid-1990s. The city has moved from being a leading investor in ASEAN countries to serving as the gateway for Southeast Asian investors interested in establishing a presence in China. I am sure that his observation is shared by many here. The implication of this study is important for Hong Kong - that is, the future of Hong Kong rests as much with its neighbouring economies as it does with the Mainland of China.

There are several key developments that have contributed to the change of

regional architecture in the Asia-Pacific over the past decade or two. One of the most significant is the rise of China and its economic success. A combination of sustained high economic growth, a large supply of labour, and active promotion of human capital as well as development of technologies, has powered China to become the engine of economic development for the Asia-Pacific region. China is now the third largest producer of manufactured goods, with its share rising from four to 12% in the past decade. Some refer to the Mainland as the "world's factory", indicating its role as a nexus of global production networks.

This brings me to the theme of this seminar, the "issues and opportunities" for Hong Kong in the region. Hong Kong is a unique city in China. Our history and experience in international trade set us apart from the rest of our nation. As China opens up to global trade, Hong Kong is increasingly called upon to strengthen its role as economic, social and cultural mediator between China and countries in the region. Hong Kong is the obvious choice as a go-between because our economy is so externally oriented and at the same time we share the same language, culture and work ethic as our neighbours across the boundary.

When it comes to doing business, our biggest single advantage is our landmark free-trade agreement with the Mainland, the Closer Economic Partnership Arrangement, or CEPA for short. CEPA opens up Mainland markets to Hong Kong companies ahead of WTO obligations. Because of Hong Kong's "nationality neutral" policy, foreign-owned companies incorporated in Hong Kong benefit fully from the arrangement. CEPA currently covers 27 service sectors including financial, legal, logistics, tourism and professional consulting. Another 11 service sectors will be added from January 1, 2008. CEPA provisions give companies a head start over their rivals in doing business in the Mainland. They also provide an opportunity for those who wish to test the water across the boundary with products and services before taking a full plunge.

Today, Hong Kong is home to more than 3,800 regional headquarters and offices, that is 50% more than in 1997. These international companies, including Mainland enterprises, not only conduct their business in Hong Kong but also manage their Asian operations from Hong Kong. So we are a platform both for overseas entrepreneurs investing in the Mainland market and for Mainland enterprises to raise funds around the world. As a financial centre, Hong Kong has always punched above its weight in the international arena. Our stock market is the world's seventh-largest in terms of market capitalisation. Last year we ranked second behind only London and ahead of

New York for funds raised through IPOs. The Central Government has also given its full backing to Hong Kong's role as China's global financial centre. The national economic blueprint, the 11th Five-Year Plan for the first time makes specific references to Hong Kong. It reaffirms support for Hong Kong's development and the irreplaceable role of Hong Kong as the gateway between the Mainland and the rest of the Asia-Pacific region.

But we cannot take all these for granted. The rapid economic development in the Mainland, despite the numerous opportunities it brings, also poses challenges to many of our existing industries. Meanwhile, the Mainland is fostering closer cooperation with the ASEAN countries. This will also impact on the traditional intermediary role that Hong Kong plays in the region. We should think hard and work hard to move up the value chain and to stay ahead in the game of competition. We should continue to be outward looking and direct our externally oriented promotion efforts to ensure that Hong Kong remains the best two-way portal that connects the Mainland with the world.

Another crucial factor that has thrown up new opportunities, as well as challenges, for Hong Kong is globalisation. With the ever-expanding flows of information, technology, capital, goods, services and people throughout the world, our global interdependence deepens substantially. Taking trade as an example, intra-regional trade has significantly increased in Asia, from 35% in 1980, to 55% three years ago, which is on a par with NAFTA. This is good progress, but we can do better by further breaking down trade barriers and opening up our markets. This increasing inter-connectedness provides powerful momentum for further economic integration and growth, and raises world living standards. It also produces significant challenges. We are acutely aware that the benefits of globalisation are not global. Furthermore, the connectedness makes us more vulnerable to financial crises in other parts of the world, pandemics, environmental disasters, climate change, transnational crimes, irregular migration. These problems can be resolved only by close regional cooperation and by global action.

Ladies and gentlemen, this year marks the 10th anniversary of the Asian financial crisis. We have also had to contend with SARS, avian influenza and the fallout from the 9-11 attacks in the US. We should not forget the lessons we have had to learn in forging our economic recovery in the past decade. The IMF recently noted that, "Asia has come a long way as a result of financial and corporate sector reforms as well as significant improvements in monetary policy framework". These

improvements will help to make our economies more resilient to future shocks. But this is no time to let down our guard. Instead, we should be asking ourselves whether we are ready to meet challenges posed in such areas as public health, environmental protection and trade cooperation. What would be the potential threats to the region, and more importantly, how should we strengthen our cooperation to better meet these challenges?

I believe there are many issues as well as opportunities not just for Hong Kong in the Asia Pacific, but also for this region as a whole. This seminar is an ideal chance for the top minds in the region to share knowledge and experience so that economies in our region can grow together and we can all look forward to a more confident, united and bright future.

I wish this event every success and our visitors an enjoyable stay in Hong Kong. Thank you very much.

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