

Speech by the Chief Executive, Mr Donald Tsang, at the Managing World Cities Conference (23 October 2008)

Distinguished guests, ladies and gentlemen,

Good morning, and thank you for this opportunity to speak at this inaugural conference on managing world cities, particularly at this moment among the three celebrating universities. But what is interesting Richard just said was that this project was going to last for four years. Four years should fall inside the remainder of my term.

It was also reminiscent of what happened to the world after the debacle of the financial market in the late 1920s and early 1930s in United States. Of the scale much more smaller than the one we face today, it had lasting effect going beyond for five or six years. So let's be humble and careful but not pessimistic looking at the challenges ahead of us. And this is to me a very good time to pause and to think.

First of all, I thank the co-organisers from the three esteemed learning institutions in London, New York and Hong Kong; to our Central Policy Unit; and for the funding support offered by Mr Po Chung and the Lee Hysan Foundation.

And of course a warm welcome to our friends and guests who have travelled to Hong Kong to take part in today's events and the workshops planned for the ensuing two days.

We come together at a time of great economic uncertainty - by extension also means a time of great uncertainty for world cities.

Not in whether world cities will survive the financial tsunami that has engulfed global markets - they will; but uncertainty about how long and deep the after-effects will be; how much business and individuals will suffer from the severe credit crunch; and what measures the international community can take to prevent a crisis of this magnitude occurring again too frequently. We are going to have periodic breakdowns and debacles. The question is how often.

All of these are issues that are still unwinding, and I do not intend to venture into that territory. But I use the current crisis to illustrate one point - and that is the extent to which the world is interconnected, and the extent to which we share each other's problems - as well as each other's opportunities.

These connections are especially strong between world cities such as Hong Kong, New York and London, which are all hubs of global economic endeavour – and thus depend on one another to a certain extent – and which have all flourished as a result of globalisation.

When I talk about globalisation, I don't just mean trade and investment. I also mean the globalisation of talent, ideas and information; the globalisation of best practice; and the globalisation of expectations.

These, too, are all inter-related and very closely linked to competitiveness, which I will take as the broad thrust of my remarks today on how we manage the world city that is Hong Kong. And by competitiveness, I mean how to maintain the long-term sustainable development of our economy.

It is important for us not to forget sustainability in the development. Although in these days of crisis, nobody wants to talk about anything beyond a week. And this has in fact caused a serious trouble in the legislature recently, when I talked about the long term effect of a particular policy. But that's my work, don't worry.

If you gaze into the heart of any great city you will see that one indispensable element of its success is people - people with dreams, vision, and commitment. People who live and work in the city, and who contribute to its economic vibrancy.

You will also see a great variety of people - people from different cultures speaking different languages, with different ideas and lifestyles, and different beliefs. In other words, a world in a city - a pluralistic, tolerant, outward-looking society that celebrates diversity and benefits from the cross-fertilisation of ideas and experience.

So, challenge number one for Hong Kong is to ensure that we have

enough home-grown, national and international talent to continue serving the global market.

How do we do this?

First of all, by investing in education to give our young people as many opportunities as possible to develop their own particular talents. Education takes up almost a quarter of our total public spending - the largest allocation by far to any policy area. We have in recent years reformed our education system to better equip our young people with the knowledge and critical thinking skills required to compete in the global market.

We also have a vibrant international school sector - the most comprehensive in Asia; and we are opening up more university places to students from outside Hong Kong to provide a more diverse learning experience for all students - in other words, we are making university a more international experience.

In terms of attracting talent, we already have a fairly liberal immigration regime for professionals relocating to Hong Kong from abroad. We also have schemes that target talented people, investor migrants, as well as Mainland professionals. We'll be doing more to promote these schemes in the next few years.

In a city with a very low birth rate, and an ageing population - common traits of advanced economies - it is absolutely essential to our future that we nurture our human capital, and have policies in place to attract the best and the brightest from our country and around the world.

It is one thing to develop and attract talent. But, it is another thing to retain talent. This is an issue that many companies have faced over the years - but it is also an issue for cities such as Hong Kong, which are heavily reliant on services and high value-added, knowledge intensive industries.

Nowadays, lifestyle options and work-life balance are increasingly important. People do not mind working hard if they are compensated well - but compensation includes more than just salary. It includes family-friendly work practices, flexible working hours, enhanced leave provisions, and opportunities

to contribute something back to society.

In a similar vein, a city needs to have in place policies that can enrich the lives of the people living in that city. This includes a commitment to provide an eclectic array of cultural pursuits and recreational opportunities, a clean environment, safety through adequate law enforcement, and inclusive policy-forming mechanisms. A city also needs to be special - to have its own unique history and heritage that sets it apart from the rest of the world.

This is what I mean about the globalisation of expectations. On the one hand, rising living standards, education levels and civic activism - coupled with much greater access to information - have led to greater expectations in our local community. On the other hand, talented people from outside Hong Kong, or Hong Kong people who have lived overseas and experienced life in different cultures, can easily benchmark Hong Kong against other cities around the world.

What's interesting about this process is that there has been a convergence of thinking among different groups which we could broadly describe as "locals" and "expats" - the more open and globalised we have become, the greater the level of shared interests there are among the community as a whole.

This is why we are doing more to develop creative industries, to provide Hong Kong with an iconic cultural district at West Kowloon, to promote green living, to conserve and revitalise heritage buildings, and to clean up our air.

It's all about providing people with not just one, but many reasons to live in Hong Kong, to contribute to society, and to invest their time and effort in our future.

I need to stress here that I am not just talking about bringing in talent from outside Hong Kong - our own talented people have myriad options around the world to pursue. They can easily pick and choose where to live and work. So, we must do all we can to work with them to build a society that makes them happy and proud.

If we can train, attract and retain talent then another issue facing Hong Kong as an economy is how to put that human capital to best use. Now, I don't

mean nationalising the workforce. What I mean is putting in place a policy environment that maximises the opportunities for people and businesses to succeed, which in turn helps the city to succeed.

Hong Kong is fortunate to have a critical mass of global talent in areas such as financial services, legal and accounting services, other professional services such as medicine, engineering and architecture, management, logistics, shipping and aviation. This is why Hong Kong is Asia's major international corporate - for both business and the media. We want that to continue - and grow.

One way, of course, is to ensure a low-tax environment, which in Hong Kong's case is also a constitutional duty. We believe that companies and individuals are best incentivised to enhance efficiency and boost productivity if they are allowed to retain most of what they earn. So, companies pay only 16% per cent corporate profits tax, and individuals pay no more than 15% salaries tax.

Another way is to make the best use of our traditional strength as a conduit for China trade and investment. In the post-1997 environment, Hong Kong now has a national role to play - not just as our country's only international financial centre, but also as a knowledge bank of international best practice.

Hong Kong has played a major role in the opening up process of our country over the past 30 years - Hong Kong enterprises are the largest source of external investment in the country with just under US\$320 billion in realised direct investments.

But despite the huge progress that has been made since Shenzhen became the country's first Special Economic Zone, we are just at the beginning of our country's economic renaissance.

So, over the next 30 years you will see much greater co-operation and collaboration between Hong Kong, Shenzhen and Guangdong to develop a much more integrated and complementary economic superzone in the Pearl River Delta that will incorporate a population in excess of 50 million. Upgrading our services capabilities, focusing on low-pollution, high-tech

industries, greater effort to improve cultural and recreational opportunities, development of the creative economy are all high on our agendas.

We are also embarking on projects to improve the cross-boundary flows of people and goods. And Guangdong will be the spearhead of national service industry reform, with Hong Kong service providers leading the way under the Mainland - Hong Kong Closer Economic Partnership Arrangement, what we call CEPA.

And because we have a nationality-neutral policy for business, international companies using Hong Kong as a base will also be able to explore these enormous opportunities as Hong Kong companies. On the flip side, we will also do more to attract major Mainland companies to Hong Kong - so that we develop a role as the pre-eminent base for national companies with international operations. So, we can play an Asian hub role for international as well as national companies.

What this illustrates, and what I think is also very important for any city, is that you must have clear goals for the future - as an economy and a city. This helps focus attention and efforts on what is required for sustainable development. It does not mean picking winners. It means looking at what you do best, and then trying to do it even better.

In Hong Kong's case this would include financial services, business and management services, logistics, R&D, economic interface with the Mainland, tourism, conference and exhibition-related sectors, and the development of human capital - with emphasis on creative industries, and innovation.

Seven years ago, we launched the Brand Hong Kong programme - which was initially an international marketing platform to promote Hong Kong as Asia's world city.

The tagline, 'Asia's world city', was part statement of fact, part aspirational.

There are certain aspects of Hong Kong that really do set us apart in Asia - for example, the concentration of MNCs, our transport infrastructure, our communications networks and infrastructure, our legal system, clean and

efficient government and low taxes.

But there are other areas that are also very important where we need to do better - because it's what residents and visitors expect a world city to do. For example, air quality, urban renewal and regeneration, heritage protection, cultural and creative endeavour, development densities, green living, and harbourfront development.

So, our positioning as 'Asia's world city' - which was based on research locally and outside Hong Kong - has actually helped to galvanise community opinion on many important issues.

Hardly a week goes by when we don't have 'Asia's world city' mentioned in the newspapers. More often than not it has been used to highlight areas where Hong Kong, as a city, has not lived up to people's expectations - so our positioning has also provided us with a constant feedback loop. In other words, a built-in quality control mechanism.

We are currently reviewing Brand Hong Kong. One of the key elements of our engagement exercise is to ask people what kind of city they want Hong Kong to be by the year 2020 - what our society's goals are for the future, and how the government and society can work together to achieve those goals.

Ladies and gentlemen, economic globalisation has narrowed the distance between cities and nations, and fostered a closer international community. These trends will continue and hasten.

As an externally oriented economy, Hong Kong is vulnerable to changes in the external economic environment. With globalisation, we have become even more exposed to external factors in areas such as the economy, finance, food safety and environmental protection. And, we are also facing fiercer competition for the talent needed to sustain our economic growth.

Many industrial countries face the problems of an ageing population, a widening wealth gap, and environmental pollution. These social development problems would impact on our competitiveness and long-term viability as a world city.

Thankfully, we are not alone in facing these and other challenges. New York and London are facing the same challenges. Conferences such as this will help us all to better understand the dynamics of world cities and, hopefully, become better cities, and better societies as a result.

Thank you very much.