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Following is a speech by the Chief Executive, Mr Tung Chee Hwa, at a lunch co-hosted by The Canadian Club of Toronto, Hong Kong Canada Business Association (Toronto), the Hong Kong Trade Development Council and the Hong Kong Economic and Trade Office Toronto, Metro Toronto Convention Center (April 4, Toronto time)

CE's luncheon speech in Toronto

Distinguished guests, ladies and gentlemen,

Thank you for such a warm and hospitable Canadian welcome. It is great to be in Toronto and among so many good friends of Hong Kong. There are tremendously strong bonds of friendship and business between our two communities and I hope that our visit can help to strengthen those ties, and create many new ones.

First, I must apologize for taking so long to get here. I know our sudden cancellation last year did cause a great deal of inconvenience. At that time, we were dealing with an extremely important constitutional issue about the right to settle permanently in Hong Kong. I had to remain in Hong Kong to work through all of the legal issues and ramifications with the community. The decision to postpone our visit was only made at the very last moment. It was a difficult decision but it was the right one for Hong Kong. So I'd just like to say 'thank you' for your understanding - and patience.

Before I tell you about all of the good things that are happening in Hong Kong, let me give you some perspective. Since the Handover in 1997, we have had to face two distinct but monumental challenges as a community. The first was political, and that was how to make a success of the untested concept of 'One Country, Two Systems'. The second was economic, and that was how for Hong Kong to achieve a recovery from the longest recession in our history brought upon us by the Asian financial crisis. That these two challenges were with us almost simultaneously made our work much more difficult. Today, however, we can take pride in the fact that with the support of the entire community we have met these challenges head on and in the process emerged with renewed strengths.

Anybody who has been to Hong Kong since the Handover can see that 'One Country, Two Systems' has been transformed from a concept into an everyday reality. It is working well. We have been given maximum

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support from our national leaders. At the same time, it has been made clear time and again, that it is up to us in Hong Kong to chart our own course - Hong Kong people running Hong Kong with high degree of autonomy as stipulated in the Basic Law.

Everything that has happened in Hong Kong since the Handover rests squarely on the shoulders of people in Hong Kong - people like me, members of the Executive Council, the Legislature, the Judiciary and my colleagues in the civil service - who have made those decisions. The Basic Law provides a constitutional framework for the Hong Kong Special Administrative Region. It clearly prescribes the social and economic systems in Hong Kong which, are different from those in Mainland China and also guarantees the independence of our judiciary. It allows us complete financial autonomy, and an independent monetary system.

Our political structure is evolving in accordance with the provisions of the Basic Law. The first election of the legislature was held in 1998 and the second one will be held later this year.

The evolution of constitutional law in Hong Kong has also been a new experience for us and our international supporters. Since July 1997 we have had, for the first time in our history, a written constitution. Parts of the Basic Law have already been tested in our courts - this is no surprise given the importance that Hong Kong people place on the rule of law. These challenges, and the robust public debates on rule of law issues that have accompanied them, are a healthy sign. It shows that the rule of law remains intact; and that constitutional issues can be justly and efficiently dealt with by Hong Kong's independent Judiciary.

In addition to high-profile constitutional cases, every year, hundreds of thousands of cases are dealt with in same way as before the Handover. We have a tried and tested legal system, that is easily understood and trusted by Hong Kong people and the international community. We fully understand that our common law system is one of our greatest strengths - a bedrock of our success - and that we must, and will, do everything we can to protect the rule of law in Hong Kong.

So, 'One Country, Two Systems' is working well in Hong Kong. We are proud of what we have achieved in almost three years since Reunification. But it would not have been possible, really, without the support of Hong Kong people, the international community and the unwavering determination of the Central Government to make the 'One Country, Two Systems' a reality.

This brings me to the second challenge we have had to face since the Handover and that was how to recover from the recession caused by the Asian financial turmoil. In two successive budgets, we introduced tax cuts and freezes or reductions in government fees and charges as a means to encourage consumer spending. We also decided to proceed with massive investments in infrastructure such as roads, railways and schools, not only as a means to stimulate the economy but also as a way to build a better

future for our entire community. With the recovery of the regional economy in Asia, and the strength of the economy in North America, Hong Kong's economy is now rebounding strongly. 4

The recovery in Hong Kong has been led by increases in trade, tourist arrivals, government investment and consumer spending. The fourth quarter of 1999 grew at an impressive rate of 8.9 per cent. For the year 2000, we forecast our economy will grow by 5 per cent. Although our unemployment rate of 5.7 per cent (because of the lag factor) is still high by Hong Kong standards, the economic recovery is well on the way.

By all counts, we have managed the challenges we faced well. However, while we were devoting attention to managing these challenges throughout the past two-and-a-half years, we also continued to keep our eyes firmly focused on the long-term future. How to meet the challenges of the knowledge-based society of the 21st Century? How to achieve equitable, sustainable and long-term economic growth? Where do we want to be as a community in 10, 20 or 30 years from now?

From the very beginning, we recognized that as we move into the 21st Century, we are faced with yet more far-reaching challenges. First, the world's economy is becoming more globalised as a result of free trade and advances in information technology. Second, the Mainland's success in reform and the implementation of open-door policies in the past two decades has brought about changes in the economic relationship between Hong Kong and the Mainland. Third, Hong Kong's economy is now undergoing another round of economic restructuring. New challenges and opportunities are emerging. Let us take a closer look at these challenges.

International trade has become increasingly open in the past 50 years. New technology, particularly advances in information technology, are not only changing the way we live, but also the way we do business. Transaction procedures have been streamlined. Suppliers from all corners of the world can now engage in keener and more direct competition. We in Hong Kong will only be able to compete successfully in the world market if we can provide a wide range of high quality, innovative and technologically sophisticated products and services, and have good access to information.

Two decades of rapid economic growth in the Mainland have continued to narrow the gap between Hong Kong and the key cities in the Mainland. The Mainland has a wealth of talented people. Their knowledge and capabilities in many areas have advanced rapidly as a result of extensive international exposure in recent years. Their diligence and frugal lifestyle also give them a competitive edge. Unless we in Hong Kong consciously improve, our lead will disappear. We are faced with great challenges. But we are also seeing great opportunities. According to the World Bank, China's gross national product currently ranks 7th in the world today, and will rise to 3rd or 4th place by 2020, with an enormous cumulative growth in the interim. Nothing can stop China's advance. And as China's economy grows, Hong Kong stands to benefit greatly if we can play an

active part in that process.

With the bursting of the asset price bubbles, and currency devaluations in some Asian economies during the financial turmoil, competition in the region has intensified. Hong Kong cannot count on a recovery led by asset price inflation. Also, some labor-intensive service industries have followed the lead of the manufacturing sector and moved to the Mainland or overseas. These factors, together with globalization and the development of the Mainland's economy, are leading to another phase of economic restructuring in Hong Kong.

A little over two years ago, I announced the formation of a Commission for Strategic Development to help Hong Kong formulate a long-term plan. Drawing on the commission's advice, we will position Hong Kong, not only as a major city in China, but as the World City in Asia, with a status comparable to that of Toronto in Canada, New York in the Americas and London in Europe. Toronto, New York and London are cosmopolitan cities with a great depth of talent in culture, technology and education. They are vibrant economies and possess the financial strength to serve the region and the world in areas such as finance, trade, tourism, information and transport. They are also home to numerous national and multi-national enterprises. Their solid economic foundations have made it possible for their residents to enjoy a relatively high average income.

Hong Kong already possesses many of the key features common to these great cities. For example, we are already an international finance center, a popular tourist destination and hold leading positions in trade and transportation. These are all pillars of our economy. If we can consolidate our existing economic pillars and continue to build on our strengths, we should be able to become world-class. Then, like these cities, we will play a pivotal role in the global economy, be home to a host of multi-national companies and provide services to the entire region.

Indeed, we are consolidating our economic strengths in order to ensure our position as international financial center. We have unified our stock and futures markets and clearing houses to make them more efficient; we are striking strategic alliances with other stock exchanges to allow the cross-trading of shares around the world; we have a new Growth Enterprise Market modeled on the NASDAQ which is proving very popular for new companies, especially high-tech ventures, to raise capital; we have brought in a whole range of measures to make our monetary system more open and transparent which has reduced significantly the risk of currency speculation; we are bringing in a multi-currency clearing system to allow real-time settlement of financial transactions, initially in US Dollars but geared for other currencies if there is demand.

We are already a favored tourist destination in Asia, with more than 10 million visitors annually. But we want to do a lot better. We are developing an international wetland park adjacent to a world wildlife heritage site; we are paying more attention to Heritage and eco-tourism; and we are going to transform the face of our water-front, to make the

best use possible of our greatest natural asset, Victoria Harbour. At the center of the tourism efforts is our success in bringing the Disneyland to Hong Kong. Disneyland will open in Hong Kong in 2005. 6

Hong Kong is already the busiest container port in the world, with a throughput of more than 16 million twenty-foot units in 1999. Furthermore, with the opening of the new airport in 1998, our position as a major center for air travel has been enhanced. Our international air cargo throughput is the highest in the world. We are implementing a liberal policy for air cargo services to further develop Hong Kong into an international and regional air cargo hub.

Hong Kong is a favorite location for multi-national corporations seeking to establish a regional base in Asia. In 1999, there were 2,490 regional operations in Hong Kong, more than any other city in Asia. We are acutely conscious of Hong Kong's high costs compared with some of the other cities in the region. Housing costs have been reduced substantially and greater efficiency is being gained by the wider use of information technology. Fortunately, competitiveness is about more than just costs. Low taxation, clean and transparent government, a trusted and easily understood legal system, ease of access are all factors. In all these areas Hong Kong excels in Asia.

One of the greatest advantages in developing Hong Kong into a world class city are our links with the Mainland China. Over the past 20 years, Hong Kong has benefited greatly from China's open door policy. With China's accession to WTO, Hong Kong stands to gain greatly. It is estimated that China's world trade will double within seven to eight years. Inward investment into China will also make quantum leap. As one of the major conduits in these areas, Hong Kong stands to benefit.

The Government and the entire community fully recognizes that a knowledge economy as well as innovation and technology are the major driving forces of the economic growth in the future. From an infrastructural point of view, through private sector investment, Hong Kong already has one of the most advanced broadband networks in the world. Furthermore, the Government has accelerated the deregulation of our telecom industry providing greater efficiency and lower costs. We have established the Growth Enterprise Market to provide another source of capital for start-ups. We have liberalized the rules on the admission of talents to provide much needed skills for the knowledge economy. And through the Digital 21 program, the Government is also implementing the electronic delivery of services to our citizens.

We have a \$5 billion (C\$950 million) Innovation and Technology Fund, to encourage joint industry and government development of the IT sector. A Science Park and our Cyberport are both under construction, and initial responses to these projects are very encouraging. The enthusiastic response from the local and international community confirms that Hong Kong is well on the way to becoming the telecommunications hub and the centre for innovation and technology in Asia.

We are confident of becoming a world city in Asia. With a per capita GDP of US\$23,200, we are already First World economy. We have first world infrastructure - our roads, railway and telecommunications systems are world class. However, we recognise our weaknesses. And it is in these areas that we really must spend a lot of time and look elsewhere, to places like Canada, for ideas and inspiration and examples of best practice.

Canada has been chosen by the United Nations for six consecutive years as the best place in the world to live in terms of your environment, your education and whole range of areas. In terms of the environment we in Hong Kong have a lot to learn. And I am determined to learn in this respect so we can make Hong Kong that much more attractive a place to live in.

One of our own important areas is education. The education system in Hong Kong, as it is now, will not be able to meet the challenges of a knowledge-based economy. We are in the midst of a far-reaching study on education reform that will hopefully transform the way our students learn and think. We must make learning a more enjoyable, responsive and creative process for our young people and instill in them a desire for life-long learning.

We also must do much more to improve the quality of life in Hong Kong. In dealing with the air we breathe, in dealing with the sewage and waste we produce, the Government has outlined a very ambitious program over the next five to 10 years to achieve a standard comparable to other cities in the world.

Hong Kong's need for environmental technology, especially the technology of clean transport, is more pressing than any other city. We have higher population densities in our main city area than any place else on the planet. Already nearly 90 per cent of our passengers move around on public transport, but we need to make that transport a lot cleaner. And Canada looks to have some of the most promising technology for doing that. There looks to be a win-win partnership for both of us in this. I look forward to that developing rapidly.

We are also determined to improve the quality of homes we live in and in the soft side of culture, art and leisure - all the things associated with a great city like Toronto. I am determined to make Hong Kong one of the most attractive cities in the world in which to live and work.

At the dawn of the 21st Century, I see China's economy continuing to grow, and in time become one of the largest in the world. I see the economy of Asia recovering from the impact of the financial turmoil of the past two years and actively re-emerging in size as large as that of the European Union or NAFTA. Hong Kong, with our unique relationship with the Mainland of China, and our prime position within Asia - we are within five hours flying time of more than 50 per cent of the world's population - is ideally situated for those who wish to participate actively

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in this growing economy.

Ladies and gentlemen, Canada and Hong Kong have always had a special relationship. And you have a strong base in Hong Kong from which to build - about 100 Canadian companies have branches or subsidiary operations in Hong Kong, while another 450 are represented by distributors, agents or joint ventures. You have almost C\$3 billion worth of investments in Hong Kong. But more importantly, you have the people-to-people contacts: some estimates put the number of Canadians living in Hong Kong at around 150,000. I know well your major markets are right close by home, in North America. But if you wish to expand in Asia, please think of Hong Kong. And you know that all of us in Hong Kong will welcome you with our open arms when you do come.

Thank you

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