

**Presentation of Ms Subrina Chow,
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at the Business Round Table of
the Young Businesspeople Association of Ho Chi Minh City
at the Press Club on 9 October 2008
“Riding out the Storm – Hong Kong’s Experience”**

Introduction

Good morning, ladies and gentlemen,

- Thank you for this opportunity to share with you our experience in riding out several major storms that hit Hong Kong over the last decade.
- Before I begin, let me first introduce myself and my colleagues. We are the representatives of the Hong Kong Special Administrative Region Government, and while we are based in Singapore, our mission is to strengthen Hong Kong’s economic ties with the entire ASEAN region, which is currently Hong Kong's 3rd largest trading partner after the Mainland of China and the European Union.
- When Mr. Phuc Tien first invited me to speak at this round table back in early August and suggested that I should talk about how Hong Kong weathered the Asian financial crisis, a fierce storm was already waging in the financial markets in the West. What I did not realize at that time was how quickly and how seriously this storm is going to affect Asian economies.
- Just two months later, the Financial Tsunami has already swept across the Pacific and arrived at our coast. And the toll on the economies in our part of the world is likely to be heavy.
- While the economic outlook for the foreseeable future is not the most encouraging, this could be the best time to look back and reflect on what we have learned from tackling past challenges.

Storms over the Past Decade

- To begin, I should perhaps give you a brief account of the major incidents that took place in Hong Kong over the past decade –
 - On 1 July 1997, British colonial rule of Hong Kong ended and our city was reunited with our motherland and we became the first Special Administrative Region (SAR) of the People's Republic of China under the "One Country, Two Systems" principle.
 - On the next day (i.e. 2 July 1997), the value of the Thai Baht halved and the Asian Financial Crisis "officially" started in Thailand and quickly spread to Malaysia, Indonesia, the Philippines and South Korea. The squall arrived in Hong Kong in October 1997 when our currency and stock markets came under speculative attacks.
 - Separately in August 1997, the first case of human infection of Avian Flu (i.e. the H5N1 virus) was found in Hong Kong. More cases appeared in the following months and by the end of December 1997, the Hong Kong SAR Government decided to slaughter all chickens in the territory.
 - The above-mentioned events triggered a drastic correction in asset prices in Hong Kong. The property and stock markets reached one of their historic peaks in mid-1997. Yet by mid-1998, both property prices and the Hang Seng Index had plummeted by about 50%. Falling asset prices coupled with credit crunch and slowdown in Asian economies led Hong Kong into its worst recession since 1961. Real GDP fell by 6% in 1998 and Hong Kong entered into six years of deflation which lasted until 2003.
 - Then in 1999 and 2000, Hong Kong experienced a V-shape rebound of the economy, with real GDP growing at 2.6% and 8% in the respective two years. Yet much sooner than we would hope, the dot-com boom in the US and Europe that contributed significantly to our exports-led recovery began to lose steam in 2000. From a height of about 5,100 in March 2000, the NASDAQ Composite Index dived to the all-time low

of about 1,100 in October 2002, and in the process, wiping out about US\$5 trillion in market value of American and European technology companies.

- The bursting of the dot-com bubble, followed by the September 11 incident in the US dragged Hong Kong's real GDP growth back down to 0.5% in 2001 and 1.8% in 2002.
- Then SARS struck Hong Kong in March 2003 and hanged around with us for four months, while the unemployment rate in Hong Kong shot up to 8.8% in mid-2003. That was the highest unemployment rate Hong Kong had seen in 20 years.
- Despite this series of potentially devastating storms, the Hong Kong economy has been back on its growing course since 2004. Real GDP growth rose to 8.5% in 2004 and stayed at 6% to 7% in the last three years.
- And yes, we must now brace ourselves for yet another downturn in the world economy. However, with the experience we have accumulated through the past 10 years, we are now more confident that our economy could recover just as swiftly as it has done before.

Lessons Learned

- So what have we learned from these trials? Since we have limited time here, I would just share two very important lessons learned and perhaps leave the rest for another time. They are -
 - (a) understanding and honing our strengths;
 - (b) identifying and capturing new opportunities.

Understanding and honing our strengths

- In times of crisis, it is very important to recognize one's strengths and make the best of them. The difficult economic downturns give us a better appreciation of the importance of the fundamental strengths of Hong Kong, i.e. our free market economy, protected by the rule of law upheld by an independent judiciary; our clean and efficient government fully committed to maintaining a level playing field for businesses; our low tax rates and simple tax regime; our transparent regulatory framework that meets international standards; a free press and the free flow of information and capital in and out of Hong Kong; our first-rate transportation and telecommunication infrastructure; and last but not least, our educated, hardworking and versatile workforce.
- Hong Kong thrived in the past on the firm foundation of these competitive strengths. Yet we realized we could not stand still and be complacent. We must continue to enhance our strengths to improve our competitiveness in a globalised economy. That is why in the midst of economic hardship, we had pressed ahead with reforms of our financial markets and liberalization of our telecommunications market; upgrading of our port and airport infrastructure; expansion of our internal road and rail networks as well as our land and sea connections with the Mainland; construction of new tourist facilities such as the Hong Kong Disneyland; and extension of post-secondary education opportunities; and the list goes on and on.
- These continuing efforts facilitated our ongoing restructuring towards a services economy. They enabled Hong Kong to make significant progress in financial, trade, logistic, tourism and professional services, moving up the value chain towards higher value-added economic activities. The number of jobs belonging to the higher skilled category also surged by 34% over these 10 years.
- At the same time, our unwavering commitment to our “market-leads, government facilitates” economic policy has earned us the trust of foreign investors.

- Hong Kong remains today one of the world's leading destinations for foreign direct investment (FDI). The latest World Investment Report (2008) released by the United Nations Conference on Trade and Development just two weeks ago affirm that.
- According to the Report, Hong Kong was the world's seventh and Asia's second largest FDI recipient, attracting US\$59.9 billion inward investment in 2007. This amount was more than the combined total of the next three highest FDI recipients in Asia – Singapore, India and Thailand. Hong Kong continues to be the preferred regional centre for commerce and trade, and more than 3,800 foreign companies have set up their regional headquarters or representative offices in Hong Kong today, 53% more than the number in 1997.
- Another important feature of our market-led economic policy is the minimal involvement of the Government in commercial activities. Hong Kong relies on private sector initiatives to build its prosperity and values economic vitality as the key to maintaining its competitiveness. While there are a good number of large home-grown corporations, the small and medium-sized enterprises (SMEs) comprise the backbone of our economy. Currently some 276,000 SMEs are operating in Hong Kong, constituting more than 98% of our business establishments and offering 1.2 million jobs to our working population of about 3.5 million. To survive in the highly competitive environment in Hong Kong, these SMEs have to be agile and sensitive to market changes.
- The flexibility and adaptability of our private enterprises proved crucial when our economy had to quickly re-structure itself to meet both external and internal challenges. Private enterprises in Hong Kong were able to downsize, cut costs and seek out new opportunities in times of trouble. And this brings me to another important lesson learned in the last decade, i.e. identifying and capturing new opportunities.

Identifying and capturing new opportunities

- Doubtless, some of the most exciting new opportunities that arose during the past decade were those from the Mainland of China.
- Since China started its economic reform 30 years ago, Hong Kong has been the world's gateway to China. Today Hong Kong is still the most important entrepot of the Mainland of China. About 17% of the Mainland's foreign trade was handled via Hong Kong. According to China's Customs statistics, Hong Kong ranked the third largest trading partner of the Chinese Mainland after Japan and the US, accounting for 9% of China's total trade in 2007.
- Hong Kong is also the largest source of foreign direct investment (FDI) in the Mainland of China. By the end of 2007, among all the overseas-funded projects registered in the Mainland, 45% were tied to Hong Kong interests. Utilized capital inflow from Hong Kong to the Mainland amounted to US\$308 billion, accounting for 40% of the national total. Our business people have accumulated extensive experiences in doing business in/with China, not only in the manufacturing sector, but also in communications, hotel and tourism, catering, retail trade, real estate and infrastructural developments.
- Yet the rapid growth of the Mainland economy has not only provided Hong Kong enterprises with a low-cost production base and attractive investment opportunities, the increasing consumption power of the Mainland population has also offered Hong Kong businesses a lucrative market for their products and services.
- Recognizing the immense potential that the Mainland market holds and the need to seize the opportunities ahead of others, the Hong Kong SAR Government entered into CEPA (i.e. the Mainland and Hong Kong Closer Economic Partnership Arrangement), a free trade arrangement between Hong Kong and the Mainland of China, in 2003. This arrangement, the content of which has been broadened and enriched by five supplements signed since 2004, gives Hong Kong products and services favourable access to the Mainland market.

- You may find it a bit perplexing that a free trade arrangement should exist between two parts of the same country. Yet under the “One Country, Two Systems” principle, the Hong Kong SAR while being part of China maintains its separate membership in the World Trade Organisation (WTO) as well as its status as a separate customs territory.
- Under CEPA, all goods of Hong Kong origin may be imported into the Mainland tariff-free. Rules of Origin have been agreed between Hong Kong and the Mainland for over 1,500 products, and about US\$1.86 billion worth of Hong Kong products (in FOB value) has entered the Mainland under the Arrangement since 2004. Manufacturers, both local and overseas, have taken advantage of CEPA to produce food and beverages, pharmaceutical products (e.g. traditional Chinese medicine), plastics and plastic articles, textiles and clothing, etc. in Hong Kong for the Mainland market.
- At the same time, enterprises registered in Hong Kong that meet the specified criteria, regardless of their source of investment or ownership, could enjoy preferential treatment in accessing the Mainland market in 38 service areas. And by January 2009, the number of service areas will increase to 40. The liberalization measures in trade in services have expanded the business scope of Hong Kong enterprises and lowered the entry thresholds to set up business or provide services on the Mainland.
- So far, about 1,100 enterprises have obtained the “Hong Kong Service Supplier Certificates” and gained access to the transport and logistics, distribution (including franchising, trading and retailing), advertising, air transport and construction services sector on the Mainland. About 46% of these enterprises are foreign investments from Europe, the US, Japan and Taiwan.
- To capture tourism business from the Mainland, an Individual Visit Scheme was also introduced under CEPA in July 2003. The Scheme now allows residents of 49 Mainland cities to apply for the necessary exit endorsement from the relevant Mainland authorities to visit Hong Kong in an individual capacity. It has made a significant contribution to reviving the tourism industry in Hong Kong after SARS.

- In 2007, Hong Kong received over 28 million visitor arrivals, up 11.6% over 2006. About 55% of these arrivals were from the Mainland of China.
- Apart from investing in and selling products and services to the Mainland, Hong Kong also sees increasing opportunities for its financial and professional services sector in helping Mainland enterprises go out to the world. The Mainland has recently become Hong Kong's largest source of FDI, with the cumulative value of investment reaching US\$164.1 billion or 31% of Hong Kong's total as at the end of 2005. About 300 Mainland enterprises have set up their regional headquarters or offices in Hong Kong to oversee their business activities in the region.
- Hong Kong has also become one of the major fund-raising platforms for Mainland enterprises. Among the 1,260 companies listed on the Hong Kong's stock exchange, about one-third are from the Mainland. These companies are from a wide variety of sectors, ranging from financial institutions, real estate developers, automobile manufacturers, supermarkets, telecom service providers, to oil and gas firms, and coal and gold mining companies.
- Overall, CEPA has strengthened the symbiotic economic relationship between Hong Kong and the Mainland, and has brought significant benefits to the Hong Kong economy. Being able to identify and capture the opportunities emerging on the Mainland has certainly helped to expedite our recovery from the economic downturn from the previous storms.

Closing

- I believe I have spoken long enough about Hong Kong's experience and lessons learned since the Asian Financial Crisis. I should stop here to give you the chance to share your comments and ask questions, which I will try my best to answer. Thank you very much.