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**U.S.–CHINA ECONOMIC RELATIONS:
HONG KONG'S ROLE**

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DOUG PAAL: Good morning everybody. I'm Doug Paal from the Carnegie Endowment. And on behalf of myself, and the Carnegie Endowment, and Richard Bush who is next door at Brookings Institution today. We're cohosting this event. We will probably still have people dragging in over the next few minutes because of traffic conditions and the usual problems in Washington. That's no problem whatsoever.

[00:00:24]

It's a delight that so many of you would come out this morning. There are many distractions in Washington this week and today especially. And it shows a special dedication and interest in Asia, generally, but Hong Kong, particularly, that you've come out to hear our speaker today.

You've got the biographies in front of you. And all of you I know to be good readers so I won't attempt to read it over to you except Y.C. Leung has got a very important role in the executive decision-making body within Hong Kong and has had a very broad range of experience in building modern China in the post-reform era. And so he is someone who can speak particularly on the Hong Kong question but also on the relationship between Hong Kong and China with more authority than I think just about anyone who isn't sitting at the top of Chinese leadership in Beijing itself.

So we will proceed this morning with some prepared remarks that Y.C. will make. And then Richard will join us for some initial comments. But there will be lots of opportunity for discussion between all of you and Y.C. Look forward that. And with no further introduction I ask you to begin.

RICHARD BUSH: Actually, it's C.Y.

MR. PAAL: Excuse me, C.Y. (Laughter.) Do it 3,000 times wrong.

C.Y. LEUNG: Shall I do this sitting down to make it comfortable? I've already taken off my jacket and made this entirely informal. Thank you. Now, ladies and gentlemen, good morning. I am very pleased to be in Washington, D.C., again.

Last time I was in your lovely city was February. My wife and I had to – (laughter). My wife and I arrived from Boston. When we were leaving Boston, our friends there made this very casual remark about, sort of, possible wintry weather in Washington, D.C. But nonetheless, since we had booked our flights and made promises to see our friends in Washington, D.C., so we went ahead. The flight itself was all right. We landed all right. By the time we got into the hotel, the weather was turning slightly against us. By the time we had dinner, we realized that we'd probably made the wrong decision to go ahead with a visit.

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But anyway, our appointments collapsed one after another. And at the end of it, we had to sort of brave the snow. And the taxi driver was actually prepared to take us to the Union Station because we had abandoned our flight. And we took a nine-hour ride from Washington, D.C., to New York. (Chuckles.) We caught the 6 o'clock flight back to Hong Kong in time for Chinese New Year's Eve. So that was my last visit.

This time around, today is mid-autumn festival, when we are supposed to have the brightest and the fullest moon in the year. And it is also the time of the year when folks, particularly in the old days and particularly in the north would sort of put their tools down, have their last harvest in the year and begin to, sort of, enjoy life a bit. But for Hong Kong and China, generally, nowadays, no such luxury, particularly, this year because as you know, the country is basically preparing its 12th five-year plan. Several – (inaudible).

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Nine years ago when the country announced its 10th five-year plan, Hong Kong was mentioned in one line. Four years ago when the country announced its 11th five-year plan, there was one paragraph for Hong Kong and about Hong Kong. This time around, the central government has been in busy consultation with the Hong Kong government. And I've got a feeling that when it's announced, we'll probably get more than one paragraph there.

That isn't just the 12th five-year plan. But also, we have, for example, our annual supplementary agreement under CEPA. The original document was signed in the year 2003: Closer Economic Partnership Agreement. It's something like ECFA which the mainland signed with Taiwan on – I think, it was the 29th of June. It's essentially free-trade agreements between two parts of the same country. And nowadays, every year we get a supplementary agreement under CEPA.

And also on the provincial level, Guangdong and Shenzhen have had various plans. For example, the 2020 plan for the development of the Guangdong economy, that has a big part that concerns Hong Kong and so on. So I thought I might start by saying a few words about our economic cooperation. And some people in Hong Kong are exposed as using the word "integration" with the mainland.

Going back a few years, I've been heavily involved in the transition of Hong Kong to 1997 as secretary general of the Basic Law Consultative Committee and then one of the vice chairmen of the preparatory committee for the setting up of this special administrative region government.

Every time when you receive friends from the U.S., every time when you come to, particularly, Washington, D.C., in this country, people were totally preoccupied with one question: Is Hong Kong going to survive 1997? Is one country-two

systems, going to work? Is the Chinese government to be trusted for its words? And so on, so forth?

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And then a few years after 1997, people in this country were interested in the implementation of this one country-two systems principle: whether we were prepared to – whether we were able to maintain an independent judiciary; whether the high degree of autonomy that we were promised in the Basic Law was for real and so on.

Finally, 2007, when I came with the Hong Kong Foundation – I was in D.C., I was in New York. I gave a speech basically reviewing the tenures of Hong Kong as a special administrative region of China. People asked questions, people made comments in the audience. And the message was loud and clear. And people were saying – in this country, people were saying: We heard enough. We believe you. We know that one country-two systems are working so let's move on; what should we talk about from here on?

And I said, there's a lot to talk about Hong Kong; and how Hong Kong contributes to China – and also to interface between China and the rest of the world. And I thought I might mention a couple of examples. I am chairman for my – (inaudible) – of the City University Council, which is one of the larger universities in Hong Kong. It's a new university. It's 25 years old. And therefore young, dynamic, looking for new things to do all the time.

We have a law school. This month we have started offering LLM: master's degree in law; in transportation and maritime law. Firstly, there is an American dimension in it because the law program – this law program that we offer at this Hong Kong university is offered in conjunction with the main university of the States and the Chinese university of politics in Beijing.

And we want to turn Hong Kong on the foundation that we now have – as one of the major (contained ?) – ports in the world in terms of throughput. We now rank number three. And we are sort of slipping down the table. We want to, on that foundation, turn Hong Kong into a maritime service center – international maritime services center. You know, the sort of thing that London does and does very well.

So far, we are not competitive. We don't have the talent pool. And there's no reason why we shouldn't start to develop Hong Kong along the lines of London in terms of the provision of the following services: the selling and leasing of ship; the brokerage of ships; ship-management services; registration of ships; financing; insurance, and all the legal services that are required for the above-mentioned activities.

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So two years ago when I became chairman of the Council of City University, I had to work with the dean of the law school, who incidentally is a mainland Chinese scholar educated in this country, an alumnus of Columbia University. I might say something about the work that we're doing with Columbia later on.

I sat down with him and the president of the university, who is a Taiwanese, worked nearly all his life in this country as a scholar, academic dean of engineering school; moved to Hong Kong two years ago and took up the presidency of City University.

So the three of us sat down: Taiwanese, mainland Chinese, the Hong Kong Chinese. We sat down and I asked the two gentlemen – I said is there room? Do we have the capability of starting a maritime-law degree at City U.? A year later, they gave me a report and they said, Chairman, we believe that we should do it. It'd be good for the university. It will be good for Hong Kong and it would be good for the country.

China is fast becoming one of the largest shipbuilding and shipping nations in the world. Out of all the cities in China, we believe Hong Kong is the one city that has all the attributes of becoming a mini-London, to provide the kind of (desk-based ?), not shore-based, maritime services that London does so well.

And so we announced about six months ago. We actually started offering the course this month. And we have set up this transportation and maritime center at City University. So that's just one example – is a Hong Kong, Beijing and U.S. collaboration.

[00:11:14]

I mentioned Columbia Law School. And it's also interesting. Out of all these things we don't talk about enough – although there is no reason why we should, sort of, keep it secret – but it is not publicized enough. For four years, now the City University law school has a joint program with Columbia University in this country. And we train 30 senior Chinese judges, with the consent of the Chinese judiciary. It's a 12-month program. Six months in Hong Kong. Six Months at Columbia University.

We believe it is a great thing for the judges, personally; it's a great thing for the Chinese judicial system. It's a great thing to help China improve its rule of law and its judicial functions, generally. And sometimes, I get this feeling that without little Hong Kong somewhere in the middle, this program may not happen direct between China and Columbia University. So that's another example.

I started by talking about the work of the university because I – and sincerely believe, although, when I come across friends in this country who want to talk about China. You see people in America going direct to Beijing and Shanghai more and more. Very often you come across someone in this country and you shook hands before you depart. And you ask a person, I look forward to seeing you in Hong Kong.; when are you coming to Hong Kong? The person might say, I don't any immediate plan, but next week I shall be in Beijing, or, next month I shall in Shanghai.

[00:13:02]

Well, Hong Kong, dangling down the belly of the country, geographically speaking, may not be a very convenient stopover point. But Hong Kong offers a huge and a very useful collection of intelligence know-how. And it's, firstly, academia. I mentioned City University and its industry. And that would include the American Chamber of Commerce in Hong Kong, and also in government circles.

For example, if one wants to get an inkling as to what the country might do in its 12th five-year plan and therefore this offers opportunities for businesses in this country, and Hong Kong would be one of the best places where you would find such intelligence, or, informed opinion.

On the question of complete convertibility of the renminbi, for example, which is something that interests this country, particularly in terms of the right level of the value of renminbi: As an example, as I was leaving Hong Kong yesterday, I came across this article. You might to look it up; this article, written in Chinese, published in a Chinese Hong Kong newspaper by the chief executive of the Hong Kong Exchange has taken up this position for about a year now, who has a mainland background, educated in this country, with a huge amount of experience and expertise in him, and he wrote a very detailed analysis. I am no expert in this area. But it was a very detailed analysis. And a very convincing case, in my view, as to how and why the renminbi might be become fully converted by the year 2015.

So that's just one example of the sort of thing that you might find in Hong Kong. So I thought I might just stop there. I know this is a discussion more than a speech or lecture. And I'm sure there's sort of a wide variety of interest in Hong Kong and it how sort of fits into the bigger picture. So Richard and Doug, thank you.

[00:15:24]

MR. PAAL: Richard. It's over to you if you're ready, and I look forward to the discussion.

MR. BUSH: Well, I'm not ready because this is such a rich presentation. And I guess people in South China speak quickly; I'm from the southern part of the United States and I speak slowly. (Laughter). And I think slowly.

But you know, I think I agree fundamentally with your basic point that Hong Kong can be – is an ideal portal for anybody wanting to do business in China. Hong Kong has a role to play in the development of China still. But it still has to, sort of, be very creative in how it fashions its niche. And once it identifies its niche, like maritime services, what are the resources and capabilities and infrastructure you need to ensure that you can fill that niche?

And you've given us one good example, and I wonder if there are others. Given your role in education, I think it would be useful for us to hear your evaluation about the quality of education in Hong Kong across the board. And is it producing the kind of talent that can – that will allow Hong Kong to be this high-quality portal?

Since you're here in Washington, I also want to give you the opportunity to offer your thoughts on the direction of U.S. economic policy. And we have to acknowledge, on the one hand, that the Obama administration has been somewhat silent when it comes to trade policy. That may be changing, but our Congress is taking its own initiative, and trying to find a way to basically punish China for maintaining a dollar Hong Kong – a dollar-renminbi peg and then now having gradual appreciation. But I wonder what the implications for Hong Kong would be if that sort of effort goes forward and is successful. Thank you.

[00:18:06]

MR. LEUNG: Thank you. Very good questions, Richard. Firstly, education: The scene in Hong Kong is this: All the tertiary-education institutes – or institutions are funded by government through a government organ called UGC, university grant committee.

Education is one of the biggest spenders in Hong Kong – in the government budget. We have seven government-funded universities plus an institute of education. We have a couple of very, very small private universities. Hong Kong has a high GDP per capita. By that standard, we rank about 25th in the world.

But university education is not common. The percentage of young people who have the benefit of receiving university education in Hong Kong is only about 19 percent. We do have a large-ish population of students studying overseas. If they all return to Hong Kong then the percentage would go up to something like 23 percent.

So we still have 70-something percent of young people in the right age groups not getting a benefit of university education. We want to change that. And therefore, we're encouraging in the establishment of private universities, and also

in the publicly funded universities, the establishment of self-funded programs; namely, programs that are not subsidized by taxpayers. So that's in terms of the number of places.

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In terms of the courses we offer, we are going through this change in our philosophy, in our attitude and approach to university education. In the past, we looked at university education as a means of training or producing the right caliber of people in the right professions for Hong Kong's local needs: medical doctors, engineers, accountants and architects and so on. In the past, say, five to 10 years, we have gradually moved away from that, and we are now training young people for export purposes.

If I may just digress – I'll come back to education – just digress to show the kind of changes that have taken place in Hong Kong: In the year 2001 – and it's only nine years ago – I, together with a few friends in Hong Kong, founded a body by the name of Coalition of Professional Services. We don't have any personal members. All the members of the coalition are professional bodies, so we have the bar association, the law society – meaning, solicitors – medical association representing doctors, dentists' association, the accountants, surveyors, architects, engineers, planners and landscape architects.

The 10 major professional bodies, representing a total of something like 60,000 qualified professionals, got together and formed this coalition. And the primary mission of this coalition is to promote Hong Kong professional services overseas, primarily in mainland China.

[00:21:38]

When we announced the formation of this body, there were skeptical voices in the community. And people said, China's full of engineers, they're full of architects and accountants that are equally as good as you guys. And they're cheap. They charge much lower fees than you guys. And you don't have a chance.

Surprise, surprise, Hong Kong-based professional services – I'll come back to the word 'based.' Hong Kong-based professional services are very popular on the mainland, so much so that today, nine years on, five of the 10 professions in Hong Kong derive higher fee revenues on the mainland than in Hong Kong. And it's not difficult to understand if you are an American firm and have quite a few good American firms of architects in Hong Kong. In Hong Kong, you'd be doing extremely well in one city to have, let's say, three or four projects going on at the same time. In the mainland of China, where you have 660 cities, you only need to have, let's say, two projects in four or five of the major coastal cities – Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, you name it. Let's say in

these four or five – let’s not be ambitious – in four or five coastal cities, you have two projects each, then you have 10; while you may have three or four in Hong Kong.

And so for the architects, for the accountants, all the “big four” in Hong Kong, all with American connections and branches and so on, the big four in Hong Kong – accountants, surveyors, basically, (realistic ?) as consultants, planners, city planners, and landscape architects – they all run up and down the country and use Hong Kong as a base.

I use the word “base” because I’m not talking about Hong Kong indigenous professionals. In 2003, after CEPA was signed between the mainland and Hong Kong, that gave Hong Kong professional services a boost, because more and more members of the professions in Hong Kong could, through the provisions of CEPA, obtain reciprocal professional qualifications. And this applies not just to Hong Kong Chinese or indigenous Hong Kong professionals but also American professionals and professionals of other nationalities.

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So that’s what Hong Kong’s doing as well, for itself and also for the country. It’s not just the hard skills that Hong Kong professionals bring to the table, but the soft skills. It’s not just the design of a building, if you’re an architect, but also the management of a building, professional ethics and accountability to clients and putting client’s interests first, and all that that makes Hong Kong very competitive.

And so Hong Kong – going back to education – Hong Kong universities and the general education system have to be adaptive and responsive to the changing needs – language, for example. We place a great deal of emphasis on the three spoken languages, English, Cantonese – the southern Chinese dialect – and Putonghua, which is the national spoken language, and the two written languages, English and Chinese. And I think we’ve done very well in that area, too.

And universities generally have to be pretty quick off their feet in adapting its courses to the needs of the industries, the needs of the graduates. One has to be very careful, because when one talks too much about the needs of industry and how employable graduates are when they leave the doors of the university, you get some academics coming up to you and saying, Mr. Chairman, education is not about employment. Education is about some higher purposes and more noble purposes. But in so far as a correlation between employment and education is concerned, that’s where we are.

Staying on this subject, again, staying on City University, we applied to the government’s university grant committee for roughly \$100 million U.S. We were turned down; they said they didn’t have the money. We haven’t given up. We’ll

put in an application sometime in the future. We have this little idea of offering a joint program with Cornell University, in this country, to train vets in Hong Kong. If and when we do it, it will be the first in Hong Kong. We said in day one, clearly in our proposal to UGC, that this vet school is not a pet school – (laughter).

[00:26:57]

We have enough pets in Hong Kong, from dogs and cats and goldfish and whatnot, but we weren't proposing to train vets for the residents of Hong Kong. I'm sure that wasn't where Cornell was coming from either. But we see China as a huge agricultural and farming country, with farm animals and also the interface, the health interface between animals and human beings.

You look at SARS, chicken flu, and so on, and there's a very important health issue in the interface between animals and human beings. And so we thought it would be great if we could start training Hong Kong vets, and if we could also sort of keep some places for mainland Chinese students. So that was our grand plan. We haven't got the money. If anyone knows someone who is interested in animals or animal welfare and who's prepared to write a check of \$100 million U.S., then we might have a cause running in about 12 months' time.

So there again is a very interesting example to show the interface between, or the interaction between Hong Kong, the States and China. On the question of the quote, unquote, "U.S. punishment of China" on the economic front, Hong Kong itself is changing very quickly into a surface economy. I know much of the manufactured products, the industrial products that we make in the mainland of China are exported direct from the mainland ports, and therefore they do not count as Hong Kong's export, and they do not really feature in our GDP. But 90-something percent of Hong Kong's GDP is now service or services.

It may hurt some of our manufacturers operating in the mainland, particularly in the Pearl River Delta area. It may cause collateral damage to the trading houses in Hong Kong or the banks that provide trade finance and so on. It's something that we watch, but it's not a huge thing nowadays, unlike the situation back in 1989 and 1990. So that's – these are my answers to your questions.

MR. PAAL: Thank you very much.

MR. LEUNG: I appreciate it. Thank you.

[00:29:31]

MR. PAAL: I'd like to open the floor now, and I think I can see a lot of – (inaudible). Please identify yourself and your institution.

Q: Okay, I'm Quansheng Zhao, professor of American University here, in Washington, so welcome back to – I have two questions, one about Hong Kong's international role and the other about education. There's a long debated question that what impact of so-called the rise of Shanghai, for example, Shanghai export, would make in Hong Kong's financial status center decline? Another development is ECFA with Taiwan so people, folks, would not need to passing through Hong Kong.

So those factors, how that would influence Hong Kong's international role? That's also related to the most recent crisis in the Philippines, the hostage issue, that – what people are talking about, the subnational function of Hong Kong. You know, how over that hostage issue, I mean, how Hong Kong would play a role. There's a lot of debate over that issue.

Second issue is education. The education one, I'm glad to hear that you serve at City U. I happen to be an external examiner for City U, so I am very glad to see you here. You mentioned the private university and the project, joint degree with Columbia University and others. My question is very simple: Where do you get funding for those projects? It's not easy. Okay, thank you.

[00:31:18]

MR. LEUNG: Thank you, Professor Cheng. Your name is Cheng or Zhao? Zhao, Zhao. (In Chinese.) The last question first, which is easy. The funding for the law program for Chinese judges is entirely external funding. Kind-hearted people in Hong Kong who have millions to spare – it doesn't cost that much money. It's basically the cost of accommodation for the judges when they are in Hong Kong for six months and in Columbia University for six months, plus the travel cost. It's – I think budget is about two, 3 million Hong Kong dollars a year, so it's not a huge amount for 30 Chinese judges.

On the question of Philippines, my view is not a question of whether Hong Kong has or doesn't have the right to inform the Filipino government of the concern that Hong Kong people and Hong Kong government have. It is a question of human lives. I don't think we should be sort of boxed in by bureaucracy or diplomatic niceties and rules and whatnot.

So as far as I'm concerned, it's entirely right and proper for the Hong Kong chief secretary to pick up the phone and say, hey, human lives, and they happen to be Hong Kong people's lives, are very much at stake. We expect the Filipino government to do whatever is in their power to do to save these human lives. In Chinese it's – (in Chinese) – a special set of circumstances, and they warrant special efforts.

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Shanghai, big issue. Ten years ago, 15 years ago, particularly before the transition in 1997, people asked a lot of questions about Hong Kong and Singapore. We don't hear so much about Singapore nowadays, and somehow people managed to find another city to substitute Singapore to keep Hong Kong on its toes. We should be on our toes. Seriously, we should be on our toes, and Shanghai is very, very competitive.

I go to Shanghai a lot and I am an advisor to the Shanghai government. I've been doing this for a long time now, for more than 20 years on the land side of things. I drafted for the Shanghai government the first land-sale document in April, 1988, the month after the Chinese constitution was amended to allow private ownership of land. So that was the beginning of the real-estate market in the mainland of China.

I like Shanghai and I go there regularly. You go back every three, four months, you see new things on the skyline, you see new ways of doing things, and they are very, very competitive. But then let me say this: Without being complacent, China needs more than just Shanghai and Hong Kong. I don't think Shanghai – such a large country could do with just one commercial or financial center.

Even Hong Kong, as it is – I mean, if you read serious studies prepared by people who know the business comparing Hong Kong as an international financial center to the real global financial centers, such as New York and London, you realize that while we are – Hong Kong is quite good in certain areas, there are quite a number of gaps where we are entirely absent. We don't do anything in these areas.

We don't do a lot, for example, in the debt market. And then, our size is very small. We talk about Hong Kong as an international financial center. Of course we're international; of course we're competitive in many areas. If you look at attributes of Hong Kong as a financial center, we have many of these attributes. Two, three days ago, there was another report that came out that put Hong Kong number three, after London and New York, and we're obviously very pleased with these results. But then once you look at a question of size, and size does matter. If you read a Cambridge University study, for example, that came out two years ago, we are about one-tenth the size of New York and one-tenth the size of London.

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And you only have to look at the number of buildings and the square footage of all these buildings in the CBD of Hong Kong and compare that to New York, compare that to London, and the total square footage is about 10 percent, too. So what I'm trying to say is that, firstly, on the more positive side we have a lot of room to grow in, and Shanghai has too. I think it would be a long time before the

two cities are really competing against each other, and when it becomes a serious game.

And Hong Kong has something special to offer, too, and it is something that Shanghai doesn't have yet, and this is, generally speaking, people's confidence in the rule of law in Hong Kong. Independent judiciary and so on – it's particularly important, in my view, when it comes to financial transactions – when you part with \$100 million U.S. and all you get is a piece of paper with words written on it, and that's all you have. And it's the laws, and the ability to get independent judicial judgment and then enforcement of the judgment behind these words that really matters.

ECFA is a little different from CEPA in terms of coverage – the nature of the two agreements are similar. I say CEPA is different from ECFA in terms of coverage because of the nature of the Taiwanese economy compared to Hong Kong economy are very different too, and the Hong Kong CEPA 2003 and all the annual supplements cover mostly services. ECFA covers mostly trade in goods, merchandise, so that's the key difference, and therefore I don't see any overlap, I don't see any competition between CEPA and ECFA. So very quickly, that's how I see things.

[00:38:14]

MR. PAAL: It's interesting, when – (inaudible) – excuse me, Zhu Ronnie was asked a question as premier back in the late '90s about the difference between Shanghai and Hong Kong, he used to say, China's like a 747 – it needs more than one engine – (laughter) – to get off the ground. Eugene Martin was up – had his hand up.

Q: Chairman Leung, thank you for your remarks. Eugene Martin, formerly of Hong Kong and Guangzhou and most recently with Johns Hopkins SAIS and involved also with the Nanjing Center. A question on – two questions. First of all, about education, I commend you for your triangular trade, if you will, of triangular services.

On education, the question I have is, what is Hong Kong able or wanting to do in terms of direct educational services in China, with Chinese universities, whether or not the Hong Kong universities can provide particular added value, if you will, to Chinese universities? And the – secondly, thinking from my Guangzhou days, and that is, talk a little bit about the – I won't say the integration, but what we used to call in Guangzhou the Hong Kong-ization of Guangdong and how that can be – how that interrelationship is developing.

MR. PAAL: Integration –

Q: Between Guangdong – or between South China and Hong Kong itself.

[00:39:36]

MR. LEUNG: Again, very good questions. On the education side, all universities in Hong Kong – and we're talking about seven now – have in their programs a mainland Chinese dimension. I can't think of any university in Hong Kong that doesn't have some kind of a presence on the mainland. Baptist University, for example, has a campus in Zhuhai. City University is going to open next month a research center in Shenzhen, which is a joint effort between, Shenzhen University and the Shenzhen government.

We set aside – all universities in Hong Kong, because they are publicly – and heavily publicly – funded, are allowed to take on up to 10 percent of their students from overseas, and the majority – by far the majority of these 10 percent are from the mainland of China. So we now have pretty, sort of, lively Hong Kong shock mainland kind of mix of students on our campus.

In our faculties, more and more of our professors and assistant professors are from the mainland. They might have done U.S. or Europe before, coming back to China, landing in Hong Kong University. The dean of the College of Science and Engineering of City University, for example, who joined us a few days ago, was originally from mainland China, spent 26 years in a Paris University, is now a professor of, a dean of our College of Engineering. So we have a very mixed student and faculty population.

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Integration is happening very fast, happening very, very fast. In about five years' time, one could reach all the nine cities in the Pearl River Delta region of Guangdong on the mainland side, the nine on the mainland side, within an hour. Building highways, bridges – Hong Kong-Macau-Zhuhai Bridge is one of these – and high-speed trains. Guangzhou will be within reach, in five years' time, when our high-speed rail is completed. Huge costs – 70 billion Hong Kong dollars, which is nearly \$10 billion U.S. dollars. Guangzhou will be within reach in half an hour.

And I don't know what you think, but I've been encouraging Hong Kong government and Hong Kong community to think actively in the area of co-location inspection. It's an interesting subject, and it's going to really test the confidence level of Hong Kong people in one country to a system. We're still new in our life as a Special Administrative Region. Three years ago, we started to have one co-location inspection – (in Chinese) – one place, two sets of inspections on the mainland side.

There's a bridge which is 4.7 kilometers long that goes from the northwestern part of the new territories (ph) crosses over Deep Bay and lands in Shekou of

Shenzen. Fictionally – and this is legal fiction – while half of the bridge belongs to the mainland, and the Shekou peninsula actually is part of the mainland, fictionally, the entire length of the bridge and the part of the Shekou peninsula where we station our CIQ, Custom Immigration and Quarantine officials are under Hong Kong jurisdiction, and we enforce Hong Kong laws.

And so the mainland side has been quite imaginative. They were prepared to do this co-location inspection so they don't have to do it in the river or the bridge. Now, what I encourage Hong Kong government and the Hong Kong community to think actively about is to put a foot on the other boot – sorry, to put a boot on the other foot as well, co-location inspection on the Hong Kong side.

[00:44:18]

The terminal of this high-speed rail that we're building a huge cost in Hong Kong, \$10 billion dollars, is in West Kowloon. And if we don't have co-location inspection in this terminal, it would mean putting brick on as soon as the train reaches top speed. So then it slows down and stops somewhere in Guangdong, for all the passengers with their bags to leave the trains and be inspected. And that defeats the purpose, in my view, of having a highspeed rail in the first place.

If we could have co-location inspection, namely Hong Kong and mainland China's CIQ back-to-back in Kowloon, then passengers boarding these high-speed trains would not have to stop until they get to their final destination, and this could be Fuzhou, this could be Shanghai, this could be Beijing or Mongolia – Inner Mongolia – where there is a train platform now. If we could do that, Shanghai is going to be five hours from Hong Kong and Beijing eight hours and Harbin 12 hours, and that's integration.

[00:45:43]

Again, before I left Hong Kong yesterday, there was this report released by the Census and Statistics Department, which had been polling travellers who crisscross over the border. Nowadays, every day, 400,000 travelers cross the border in each direction. It's a huge number, and amongst them, 44,000 commute between Shenzhen and Hong Kong to work, and of these commuters, about 55 percent are Hong Kong residents living on the mainland, and the majority in Shenzhen, and coming back to Hong Kong to work on a daily basis. So integration is happening very fast, and there are a number of things that we need to look at and think about and ask ourselves. We are going to do it technically and politically to foster further integration.

And I stretch to say the word integration to cover a number of things, too. You know, in the past we relied entirely on rainfall that we catch in our reservoirs for our water supply, until the 1960s, when things became really desperate, and we began to tap water with the agreement of the Chinese government from

Guangdong. And now we rely on Guangdong for 70 percent of our water supply. So when it comes to water supply, that's been integrated.

Electricity supply. Is there any good reason why we should turn right on electricity by having these coal-fired plants in Hong Kong? Is there any reason why we shouldn't draw electricity from the national grid on the mainland? Cheaper, and we could use the land occupied by these coal-fired power plants in Hong Kong for other purposes. Is there any good reason why the education system cannot be integrated in some way? And so on.

Then, there are a couple of cases in the court – so I should be careful what I say – that basically challenges the lack of portability of welfare. Hong Kong people passionately call one of these welfare payments 'fruit money' because everyone at the age of 65 and 70 – 65 for females, 70 male – is entitled to roughly 1000 dollars Hong Kong, say 130 U.S. (dollars) or 140 U.S. (dollars) every month.

Now, it's being tested whether or not you can actually be entitled to that payment if you have taken up residence in Shenzhen or Guangdong. Similarly, social benefits. So the word integration, or the notion, actually covers a very large number of subjects, much larger than just economic matters. So I think these are the things that we need to look at without – I have to underline this – without compromising the high degree of autonomy that we have under one country, two systems.

MR. PAAL: This one right here.

[00:49:13]

Q: Hello, my name is Sharon Freeman, I'm a businesswoman, and I had the pleasure of living in Hong Kong for 12 years before 1997, and I worked with Lark International there, you might have known – (inaudible) – who has passed on. And my question is sort of on a different track, education, but as – I recently wrote this book, "China, Africa and the African Diaspora."

And in the course of researching this over the last two years, I have seen that there is a great deal of interest from African Americans and other minorities, not only in this country but in other countries of the world, to learn more about China and to be involved with China and of course Hong Kong, and especially as far as business practices are concerned. So I guess my question pertains to education, but in terms of adult learning and business and having exchanges to deepen our understanding of each other.

And I would think that Hong Kong could be a wonderful launching pad to help, I know at least our community here to go there on short exchange programs and perhaps vice-versa. Now, this is not the same as the Confucius Institute model, because that's more focusing on culture, but focusing on business and other

ways of exchanging information, there's a great deal of interest, and this is among businesspeople in particular.

[00:50:43]

MR. LEUNG: It's an interesting subject. It's something that we just started to look at. I mean, little Hong Kong has a pretty full agenda, but in the area of education, particularly adult education, as to how Hong Kong might facilitate more collaboration between Africa or Africans or China or in Hong Kong, I think it's something that we should look at. We have a number of – probably not enough – we have a number of African students studying in Hong Kong who have exchanges – African Americans. But we probably – we don't have that, to be quite frank with you, as an agenda item. We should talk more and find out more about what you have in mind.

MR. PAAL: Back in the corner.

Q: Good morning, Mr. Leung. My name is Henry Wong (ph), I'm a visiting fellow at the Brookings. I have two questions. The first one is that you just now mentioned about Hong Kong is, of course, still a center for China financially in comparison with Shanghai and others, but could Hong Kong also play a bit more role in terms of – in other areas, like the – talk about education, now they are taking a lot of Chinese students, studying some different way of training the student, the standards and the practice.

But also, I think, for example, Phoenix TV is basically Hong Kong, but then it has a huge influence to China, you know, that it's a kind of talk about Hong Kong-Taiwan, mainland and overseas China. So it's playing a global Chinese angle. So could Hong Kong in the future be more active in that area to connect China with the outside world in terms of the think-tanks or – right now, in Hong Kong there's not many think-tanks, so maybe there should be more international think-tanks or media or this kind of activity. It's really helping China get more overseas different views. For example, like the role Phoenix played, even though it's still a little bit more pro-China.

The second question was that Hong Kong also has a lot of people – with the CEPA, a lot of people going in to work in China, but what about the percentage of the Hong Kong international population? Now, because Hong Kong is both cosmopolitan and internationally active, so you have a lot of people returned overseas leaving Hong Kong. So in terms of human resources, talent flows with China, so what that role Hong Kong can play to help China? Thank you.

[00:53:29]

MR. LEUNG: As someone who has been running up and down the country since 1978, when reform first started on the mainland, and as someone who has seen all the changes on the mainland in the last 30, 32 years of reform, I can say with

some personal experience the kind of influence that Hong Kong has brought to bear on the development of country, with the acceptance of the people and the government on the mainland.

And this qualification is important. We have done this without standing on a soapbox beating on our chests and saying, hey, look at Hong Kong and see how we do things better than you can. And I think that probably will continue to be the approach that Hong Kong takes and should take. You mentioned Phoenix TV; it's not just Phoenix TV but generally our media, our professional services, our civil service, our Independent Commission Against Corruption, our civil service generally. So Hong Kong – some people describe Hong Kong as a showcase. If Hong Kong is a showcase, you would just as well carry on doing whatever we think is right for Hong Kong and for the country. Hong Kong should also be – politically speaking, Hong Kong should also be smart enough to provide this influence. There is a very fine line.

[00:55:21]

Let me just give you one example. A couple of months ago, people in Guangzhou – or, some people in Guangzhou, probably hundreds of them, judging by TV reports – a few hundred of them sort of demonstrated in the streets of Guangzhou, and it all was sort of lighthearted, it was sort of young people, they were shouting, but they were laughing at the same time. And they heard this rumor about Guangzhou or Guangdong government wanting to terminate the use of Cantonese as a local dialect, imposing the national language, Putonghua, on everyone.

And one young person was interviewed by a Hong Kong reporter, and he very quickly said, what's wrong with demonstrations? If Hong Kong can do it, why can't we? And if Hong Kong can speak Cantonese, why can't we? Now, you see it's that kind of influence Hong Kong also has on residents on the mainland. And as I said, it's a fine line to tread. I take your point.

CEPA returnees living in Hong Kong – I can believe this figure. It's a startling figure, but I could believe it. Apparently 100,000 returnees – (in Chinese) – now live in Hong Kong, live and work in Hong Kong. In the financial center of Hong Kong, center district, lunchtime, you walk along these long bridges, you walk across shopping centers to get to a restaurant and fast-food shops, you hear people – young people – speak to each other in Putonghua. We have a few in our office.

So is that – I should also mention this. We relaxed – as I said, we have a very large population of mainland students studying at Hong Kong universities. We relaxed our immigration rules so that graduates from Hong Kong universities from the mainland of China could remain in Hong Kong up to a year after graduation before they are landed with a job. Once they have a job, they can

apply for a work permit and work permits are quite easily available nowadays, but before that they have 12 months to make up their mind as to what job they want to sort of take on.

[00:58:09]

So we have made our policy and the whole procedure easy and friendly enough, and we are seeing more and more mainland Chinese young people, whether they are studying in Hong Kong or studying in overseas countries. And we see this as a sort of halfway house between the West, where they studied, and China, getting – like, from our point of view, the best of both worlds.

MR. PAAL: It – talking about listening, I've been observing Putonghua being spoken in the streets of Hong Kong more and more as time has passed since '97, but I've also noticed – I used to go to Australia to practice my Japanese 20 years ago. (Laughter.) Now, you go to Australia to practice your Putonghua as well, it's very interesting, this diaspora spreading throughout the region. Yes, sir.

Q: Thank you. Jonathan Broder from Congressional Quarterly. During your visit here, will you be going up to the Hill to discuss the currency issue with members up there and if so, what will you be telling them?

[00:59:14]

MR. LEUNG: No, I shan't. (Laughter.) If I were, impartially, I don't think an upward reevaluation of renminbi would really help U.S. export, and I'll be very frank too. Hong Kong is very open. There are a number of very open Asian markets close to Hong Kong, close to China that I visit frequently. I spent a lot of time in these Asian countries too.

To be quite honest, one doesn't come across American products that much. If you look at it, look at the export situation from America's point-of-view. I read one congressional report on the state of the U.S. dollar. And this report came out about two or three years ago – 2006 – four years ago. And it is entitled "Dollar Crisis." And from that report, if you read on and understand it more, from a few thousand miles away sitting in Hong Kong, the export scene of America.

To be quite honest, it's not just a currency issue. And there is some more fundamental, sort of, competitive issues of American products. And that's why – I mean, Hong Kong doesn't have any trade barrier at all. In Hong Kong and Singapore, we don't see American goods being bought the way that they were bought 20, 30 years ago. So it's something that I think we should – I mean, speaking as a friend of America, I think it's something we should look at, too.

MR. PAAL: In the back.

Q: Ralph Nurnberger with Georgetown. Thank you. Ralph Nurnberger with Georgetown University. Follow-up question – a political, economic question. If you suddenly got a phone call from the Obama administration – and this is following up on Dr. Bush’s introduction, saying what advice would you give to them for the next two, possibly six years in terms – (chuckles) – of U.S. relations with Hong Kong?

[01:01:37]

MR. LEUNG: U.S. relations with Hong Kong? More flights to Hong Kong. More people coming to Hong Kong. Find out how Hong Kong is doing and what Hong Kong can continue to do in the interface between the States and China, both politically and also economically. I know our ex-chief executive, Mr. Chee Hwa Tung (ph), has been doing a lot in that area, in that interface, which I think has been very, very useful for both the countries – very effectively, too.

And, secondly, economically, Hong Kong has a lot to offer. Hong Kong – I use the word, showcase, which is a word I very often use. Hong Kong is a showcase not just for mainland China in areas mentioned by our friend early on. Hong Kong would be a very useful showcase for U.S. technology for China. But so far, we are not seeing it.

U.S. technology that China needs – China places a great deal of importance on its environment. Much of the environmental technology that U.S. is so good at could be used in Hong Kong. And though, we have a great showcase for the Chinese on the mainland. And then this is the view taken by many importers of goods into Hong Kong.

[01:03:00]

I mean you – generally speaking, what is popular as a brand or as a merchandise in Hong Kong will become, in a matter of months, popular on the mainland. So I think Hong Kong has that very useful role too. So I think Mr. President Obama will be well-advised to use Hong Kong for that purpose, too.

MR. PAAL: Mike.

Q: Thanks. I’m Mike Fonte. I work as a Washington liaison for the Democratic Progressive Party of Taiwan. And I want to go back to one of your initial comments that “one country, two systems” is working. Let’s move on. I would like you to comment a little bit on the political implications of “one country, two systems.” There are people in Hong Kong, as you know, who are concerned that the democratic rights of the people aren’t being implemented the way they would like at least.

There are people here and of course my friends in Taiwan have the same question as they look at the Hong Kong situation, whether “one country, two systems” really allows for a full panoply of political rights, as well.

MR. LEUNG: Thank you. The central government in Beijing has made this commitment to have the selection (ph), universal suffrage, one man, one vote to elect the chief executive no later than the year 2017, which is seven years from now and the selection of all members of legislature by the year 2020 – 10 years from now. It will be a big step for Hong Kong.

[01:04:39]

But having said that, let me also say this: Hong Kong enjoys a high degree of autonomy, but not complete autonomy. Hong Kong is still part of China. China retains our central authority’s reserves onto itself under the Basic Law – the right to appoint the elected chief executive candidate, for example.

Under the Basic Law, the central authorities also have the power to appoint – and they actually exercise this – on the basis of recommendation by the chief executive, the senior ministers of the Hong Kong government. I like other democracies which, in the way that I describe it, that are self-contained democracies in sovereign countries because we are not a sovereign country. We do not have self-contained democracy.

Namely, theoretically speaking, the wish of the people in selecting a certain person to be the chief executive of Hong Kong is not the end of the process. The selected candidate – and this is in the Joint Declaration between the United Kingdom government and Chinese government, too. The chief executive is actually appointed by the Chinese government on the basis of selection or election in Hong Kong.

[01:06:08]

So that makes the Hong Kong style of democracy rather unique. Obviously, practically speaking, I do not see any confrontation between the electorate in Hong Kong in exercising their democratic rights in electing the chief executive and the right on the part of the Chinese government to appoint or not to appoint this person. But that’s the design.

It is through this appointment – through exercising the power to appoint the chief executive the central authorities in Beijing vest in the chief executive a great deal of power and by exercising these powers, Hong Kong enjoys a high degree of autonomy. So that’s the design.

Again, going back to what was discussed earlier, the political process, elections and so on, so forth, what we have been doing in Hong Kong is not just the

election of chief executive or our legislative councilors. I was a chief invigilator for two NPC elections – National People’s Congress elections – Hong Kong delegates.

[01:07:57]

We had an open election process. I was chief invigilator. And the process itself – in the vote counting, secret ballots and so on, so forth are the subjects of research and study by the central government. So Hong Kong is doing that. And doing it in our – in an open way. And it’s an interesting exercise from Beijing’s point of view, too.

MR. PAAL: Vincent.

Q: (Inaudible.) Vincent Yao (ph) from Taipei Economic and Cultural Representative Office. I just have a question. Is Hong Kong – Hong Kong people worry about their own future in terms of a competition with other major cities in China? I mean, is there a way that Hong Kong people can influence the decision-making process in Beijing?

MR. LEUNG: Hong Kong participates actively on all levels of the political activities on the mainland. We have thousands of delegates and members of the two major political organs in the country at a national level and at provincial, municipal levels.

(In Chinese.) NPC, National People’s Congress. (In Chinese) – national members of the NPC and then you have provincial, municipal members of the NPC and so. Similarly, CPPCC, Chinese People’s Political Consultative Conference at a national level – quite a mouthful – at a national level, provincial level and municipal level.

And Hong Kong people participate actively. They talk not just about Hong Kong matters, but matters concerning the country, Guangzhou, Shenzhen, Guangdong, Tianjin, whatever and our friends who are CPPCC or NPC members of Gansu province or Xinjiang. And they all actively participate and contribute. So that’s how we influence the political process and take part in it in the country.

[01:09:51]

Do you we worry about our future? We’ll be on our toes. We can see how quickly, for example, the ports in Shenzhen, in Guangzhou, Huangpu – (in Chinese) – and Shanghai have been catching up with Hong Kong. And that’s why we need to do reinvent ourselves. We want to, sort of, move up the value chain by – and I quoted this example – it’s just one of the many examples, by providing rather than shore-based activities which has a lower value added-ness.

We should provide desk-based maritime service, which has a higher value added-ness. I kept saying in this in the last two or three years in Hong Kong. I said, if upon retirement, a truck driver in Hong Kong that's been trucking between the port of Hong Kong and, say, the industrial base in Pearl River Delta region. If upon retirement, the truck driver passes the truck onto his son or daughter to become another generation of truck drivers in Hong Kong. And obviously, truck driving is a respectable occupation, but if everyone does that in Hong Kong, then Hong Kong doesn't make progress.

But if upon retirement of this truck driver, his son or daughter becomes a maritime insurance broker or a maritime lawyer, then Hong Kong makes progress. And that's what Hong Kong should do. But Hong Kong is not standing still. That's why we talked about education and how education responds – or responses to the new challenges.

[01:11:35]

MR. BUSH (?): C.Y., implied in your statement might be something that comes to mind. We know that Wang Yang is trying to push the industries in Guangdong up the value chain as well – trying to move from basic labor and assembly. Is there a role for Hong Kong working with Guangdong in helping them make that leap up the value chain and at the same time doing well for Hong Kong?

MR. LEUNG: It's a very good question. It's something that we are looking at and participating in quite extensively. Wang Yang has this notion of – (in Chinese) – you empty the cage. You had a bird in this cage and you change this bird so that you have a new bird living in the same cage – that kind of concept. Basically, decanting some of the lower value-added industries to other provinces to make space, make room for high-evaluated and hightechnology based industries.

[01:12:41]

And this would include Dow Chemistry, pharmaceuticals, petrochemicals and automobiles. And there are quite a few of them already established in Guangdong. My sense, as you see many of these repeated again in the 12th five-year plan of the problems.

What can Hong Kong do? Again, firstly, we need to understand more about it. I wrote an article about this a few days ago. And a friend of mine read this article in the newspaper and sent me e-mail, which I picked up this morning and it says, C.Y. you should ask the Hong Kong government to ask Radio Television Hong Kong, which is a government station, to make a series of documentaries about how Guangdong is changing and therefore alerting to the opportunities amongst Hong Kong people.

This is something that seriously we should do because things are – things are changing so fast in Guangdong. I could see opportunities for Hong Kong engineers, chemical engineers, production engineers working in Guangdong factories. Not necessarily owned by Chinese companies, but there are quite a few Japanese-American firms in Guangdong.

So if we return to this subject in say 10 or 15 years' time, which is not that long, we will probably say to each other or talk about how extensively Hong Kong has been involved in this process. I wouldn't actually use the word of Hong Kong helping Guangdong to – or the secretary – the party secretary of Guangdong province to achieve his objective. It is a question of Hong Kong actually making use of the opportunity to help Hong Kong itself diversify its employment base and its general economic base.

[01:14:52]

MR. PAAL: Well, on that note if there are no further questions – yes, Professor Zhao?

Q: Quansheng Zhao, again, from American University. One current ongoing crisis between China and Japan is over at Diaoyu Dao – or Senkaku.

MR. LEUNG: Sorry?

Q: Diaoyu Dao. Diaoyu Dao.

MR. LEUNG: Diaoyu Dao.

[01:15:11]

Q: Diaoyu – (in Chinese) – or Senkaku in Japanese. Obviously, Hong Kong people have been playing an outspoken role in that crisis. The question is whether it is true that Hong Kong government is discouraging the boat people toward Diaoyu Dao? And Is there any coordination between Hong Kong and Beijing government? And also, in the large context, any potential role in the future for Hong Kong to play in such an international crisis?

MR. LEUNG: I am not aware of any instruction from Beijing to the Hong Kong government to stop the boats from leaving the shores of Hong Kong to go to Diaoyu Dao. I don't think our government has that kind of policy, too. But whatever people want to do in Hong Kong, whether it's selling a fishing junk to Diaoyu Dao or to Hainan Island. And Hong Kong government wants to make sure that, that boat is seaworthy.

We have rules and regulations, so on and so forth, and we don't want people to put either their own lives, or the lives of other people at risk. And so that's the, sort of, general approach and it's a common policy on the part of Hong Kong

government. I don't see Hong Kong government itself having any role to play. I mean, we have enough confidence in the central government to deal with the issue.

[01:16:42]

Obviously, at times temperature can run high amongst Hong Kong people when it comes to Diaoyutai or Diaoyu Dao. I mean, the question of sovereignty over Diaoyutai first came up, as far as my generation was aware, when I was a teenager in school. Even then, we had students who went from school to Victoria Park to demonstrate against the Japanese on this issue.

Going a little bit beyond your question, I think, definitely, on the Chinese government side, the Chinese government is under pressure from the people of China to actually do something about this long-standing dispute over Diaoyutai. And I've heard that the foreign ministry of China has been receiving calcium tablets from the people – (laughter) – because they want to fortify the backbones of a Chinese government so they can deal with a Japanese government properly.

It's that kind of issue. It reminds me – and it's not unusual. I mean, you guys know much more about foreign affairs than I do. But it is not unusual because I read this many years ago when Ambassador Sir Percy Cradock was an assistant diplomat in China as an – sorry, a British diplomat. And he spent a long time in China. He wrote this book called, "Experiences of China."

[01:18:25]

And in this book he said, this is Cradock's first law of diplomacy. In diplomacy, it is not the other side that you worry about. It's your home side. (Chuckles.) And sometimes you have to do whatever the, sort of, popular wish of your own people want you to do. I think Diaoyutai may be one of those subjects. And you only have to visit cyberspace to see the kind of feelings amongst the netizens of China.

MR. PAAL: Well, on that note, thank you very much, C.Y., for making this contribution today and offering up your thoughts to very interested parties here in Washington. I want to thank Brookings Institution and Richard Bush from CNAPS for co-hosting today and sharing your audience with us here at Carnegie. Thank you everybody and have a good day. Take care. (Applause.)
(END)