

THE BROOKINGS INSTITUTION
CENTER FOR NORTHEAST ASIAN POLICY STUDIES

and

JOHN L. THORNTON CHINA CENTER

in cooperation with

THE HONG KONG ECONOMIC AND TRADE OFFICE
IN THE UNITED STATES

**HONG KONG AND CHINA'S NEXT
FIVE YEARS OF DEVELOPMENT:
WHAT ARE THE IMPLICATIONS
FOR THE UNITED STATES?**

Ritz-Carlton Hotel
Washington, DC
November 9, 2011

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Welcoming Remarks:

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Keynote Speaker:

THE HONORABLE DONALD TSANG

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DONALD TSANG: Distinguished guests, ladies and gentlemen. Thank you Martin Indyk for that kind introduction and thanks to the Brookings Institution and our Hong Kong office here in Washington for arranging today's lunch.

Ten years ago – or to be more precise, 10 years and two months ago – I was sitting in my room at the Hay Adams Hotel watching the horror of the 9-11 attacks unfold on television. Then, I looked out the window across to Virginia and saw smoke rising from the Pentagon. It was a sobering moment, not least because we had just arrived in Washington after an early-morning flight from New York.

That day of course remains seared in my memory, as does the outpouring of grief and sheer disbelief that followed here in the States and across the world.

One thing that really sticks in my mind, though, is the fact that most of the people we were supposed to see in Washington at that time still wanted our meetings to go ahead. We had felt – and we expected – that after a tragedy of such scale, a delegation from Hong Kong would be rather low on the priority list.

In fact, it was almost the opposite. Despite the shock and uncertainties of the day, we were told that it was at times of such great tragedy that friends and partners came together, and that Hong Kong was indeed a friend and partner of the U.S.

Today, I want to continue that theme, and talk about the solid partnership between Hong Kong and the U.S. but with a specific focus, and that is, Hong Kong's role in our nation's development.

I hasten to add that Hong Kong's relationship with the U.S. is on a pretty solid footing to start with. More than 60,000 American citizens live in Hong Kong, and tens of thousands of Hong Kong people have studied here in the U.S. – bringing back with them not just a Bachelor's Degree or a Masters, but also a new or different outlook on life.

U.S. companies account for almost 20 percent of all international, Mainland, and Taiwan companies based in Hong Kong – the most of any country or economy by a considerable margin.

There are now some 1330 U.S. companies based in Hong Kong – of which 840 are regional operations. This has been a growing trend, with a 65 percent increase in the number of U.S. companies based in Hong Kong over the past decade – up from about 810 companies in 2001.

The U.S. remains our second largest trading partner and a major investor in our economy. We continue to actively engage our U.S. audience both in Hong

Kong and through our U.S. offices in Washington, New York and San Francisco. And, the Hong Kong Dollar maintains its linked exchange rate to the U.S. Dollar, as it has done since 1983. We have a long-standing, strong and broad-based relationship – and it is one that I believe will continue to grow.

The reason I think is obvious, and that is the promise that Hong Kong holds as the most free and open city and economy in China – and the unique role we will play as the Mainland continues to open up, reform and become more fully engaged with the world. As China prospers, so too will Hong Kong. And as Hong Kong prospers, so too will the companies based in Hong Kong and the people living in Hong Kong.

Our unique strengths and the continuing growth of China's economy, will present enormous opportunities in the years ahead – and we know from our long association with the U.S. that wherever there are opportunities, you'll find American companies. And that is certainly borne out by the figures I just mentioned about the growing U.S. business presence in Hong Kong over the past decade.

In talking about Hong Kong's role in national development, let me first talk briefly about China's 12th Five-Year Plan, which is China's blueprint and action agenda for economic and social development for the period 2011 to 2015. We could spend a whole day talking about the specifics of the plan but what is important for our purposes is the general direction and strategy.

It is clear that the drive to open up and reform will continue. There will be greater emphasis on developing the domestic economy and domestic consumption. There is greater emphasis on upgrading and modernizing industry through technology and innovation; more emphasis on clean energy and protecting the environment; more emphasis on enhancing agricultural capacity and food security; and, greater efforts to help suitable companies expand their horizons internationally.

Significantly, for the first time, Hong Kong and Macau were mentioned in a separate chapter of a Five-Year Plan. This is a pivotal moment in our history, and underscores the importance of Hong Kong's unique strengths and role in the Mainland's development.

Specifically, the 12th Five-Year Plan not only supports Hong Kong's ongoing role as an international financial, trade and shipping center it aims to elevate Hong Kong's position in these areas, as well boost Hong Kong's role as an international asset management center and an offshore Renminbi business center.

That is actually pretty good news for U.S. companies too, because U.S. investment in Hong Kong is strong in the areas of banking, insurance, securities and futures trading, manufacturing, wholesale, retail as well as import/export trades.

A few months ago, while visiting Hong Kong, our Vice Premier Li Keqiang, reiterated the fact that it was Hong Kong's need and China's need to bring out the unique advantages we have developed over the years and to continue playing an "irreplaceable role" in the mainland's reform, opening up and modernization drive.

We see this as a huge vote of confidence in our future, in the quality of our systems and in the knowledge-bank of international best practice that is found across the spectrum of Hong Kong services and products – and that knowledge bank of course includes the U.S. business presence in Hong Kong, and the education Hong Kong people have received in the U.S.

Hong Kong has, in fact, played a role as China's window on the world, and vice versa, since the early days of our 'modern' existence as a British Colony in the 1840s. That relationship became much broader when China launched its opening up and reform drive in the late 1970s, and Hong Kong companies started to move production facilities into Guangdong Province.

But it has become much deeper and broader since Reunification in 1997 under "One Country, Two Systems". Let me give you a few examples.

First and foremost a much more comprehensive institutional framework that has been established to boost government-to-government, business-to-business and people-to-people links. We have our main liaison office in Beijing, as well as economic and trade offices in Guangzhou, Shanghai and Chengdu. We'll soon open liaison units in Chongqing and Fujian to tap more opportunities in Eastern and Western China.

We have signed a free-trade pact – what we call CEPA, or the Closer Economic Partnership Arrangement – which provides tariff free access for Hong Kong produced goods and preferential access for Hong Kong companies in 40 services sectors. CEPA applies to all of the Mainland and is nationality-neutral – that means U.S. companies with Hong Kong incorporated operations benefit also. We are now working on supplement VIII to CEPA, and our objective is to basically achieve full liberalization of trade in services between Hong Kong and the Mainland by the end of the 12th Five-Year Plan period in 2015.

We have the Pan-PRD Forum – which aims to tap into the economic potential of the nine southern China provinces and two special administration

regions – with a population of some 470 million, or about 160 million more than here in the U.S.

Last year we also signed the Framework Agreement on Hong Kong/Guangdong Co-operation. This Agreement further opens the gates to cross-boundary trade, finance and investment as well as ideas, innovations and new technologies with Guangdong. It establishes Hong Kong and Guangdong as bridgehead partners to accelerate and test further liberalization measures before they are implemented in the rest of the country. Hong Kong and the Pearl River Delta are spearheading the reform and opening up drive so that our national leadership can better assess what works and what does not work in the Mainland context. What's also worth remembering is that Guangdong alone has a population of over 100 million.

Hong Kong and the Mainland are now each other's biggest investors, with US\$800 billion worth of realized direct investment in each other's economies. That's a huge investment in each other's futures.

The investments by Hong Kong companies in the Mainland – in infrastructure, housing, commercial real estate and business services – have upgraded cityscapes across the country and boosted the quality and breadth of the services sector. These investments have been a positive force in the Mainland, and this great benefit is sometimes overlooked. This cross investment will continue.

On top of that, official exchanges between Hong Kong and the Mainland have deepened considerably. In the past 14 years there have been 40,000 official delegations from the Mainland to Hong Kong and vice versa – last year, on average, there were more than 55 delegations a week involved in these two-way exchanges. On top of that, last year alone we welcomed 22 million visitors from the Mainland coming here to do business or to enjoy the sights, sounds and way of life in Hong Kong.

There has been significant transfer of knowledge, experience and ideas. And the more we learn about each other, the more we understand just how closely our futures are intertwined and just how much is at stake for our country and for Hong Kong.

Looking ahead, Hong Kong will consolidate its role as a global center of finance and banking, logistics, business services and tourism. We have been given a spearhead role in the internationalization of the Renminbi, which in turn will help our country to continue with the reforms and opening up of its banking and financial services sectors. Hopefully, over time, it will provide an additional monetary resource that will help address some of the imbalances that have surfaced here in the U.S. and more lately in Europe.

In addition to our traditional strengths, we have also been looking for ways to broaden our economic base to develop a more sustainable growth model that suits a small, open and dynamic economy such as Hong Kong.

We have identified six growth industries where we enjoy clear advantages and which will be nurtured and promoted more vigorously in the years ahead. These are education services, medical services, testing and certification, innovation and technology, environmental industries, and cultural and creative industries. All of these provide ample room for further development and investment from around the world – and I would hazard a guess that there is considerable U.S. expertise in most of the six areas I have just mentioned. We welcome U.S. investment in them.

And because of the institutional framework we have established with our country, these six industries will be the focus of special attention – to see how we can provide opportunities for Hong Kong services providers in these areas to grow in the Mainland, perhaps with pilot initiatives in Guangdong for assessment ahead of national implementation.

Ladies and Gentlemen, this is a fairly broad-brush rundown of the role that Hong Kong is playing in our country's development – it is, I believe, that start of a golden era for Hong Kong just as, I believe, we are at the start of a golden era for our country.

Hong Kong has thrived on interaction with the world, and this will continue to be the case. The four pillars that have served Hong Kong so well – the rule of law upheld by an independent judiciary, the free-flow of information and capital, a level playing field for business, and a clean efficient administration – all of these have been protected by our Basic Law and provide the foundation of our separate system and way of life under the “One Country, Two Systems” formula.

But, as I hope I have been able to explain, we are just starting to see the real intrinsic benefits of “One Country, Two Systems” come into play – that is, the Mainland making best use of our strengths and advantages to help our country's development, while at the same time help Hong Kong's development.

American companies have been a part of our success story so far. And as I mentioned earlier, they have actually been a growing part of that success story in the past decade. And on that basis I am confident that our relationship with the U.S. will go from strength to strength.

Thank you very much.

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