

Speech by SCED
at the Luncheon Presented By
The Vancouver Board of Trade &
The Hong Kong-Canada Business Association,
Vancouver, on 25 November 2008
Global Financial Crisis:
Hong Kong's Game Plan and Canadian Opportunities

Good afternoon, distinguished guests, ladies and gentlemen,

I am honoured to be here today. This is my first official visit to Vancouver since I took office in July. I have been to Vancouver before as a tourist and I am always charmed by this beautiful city. Why shouldn't anyone? Vancouver is consistently rated as the top city with the best quality of life. The beautiful natural scenery is astounding. I am especially struck by its resemblance to HK with its breathtaking views of a beautiful harbor and majestic mountains at the back. And there are more. Like HK, Vancouver is a place enriched by the contributions of immigrants from around the world. And like Vancouver being the gateway to Canada and North America, HK is the gateway to China and the East Asia region.

At the moment, we are all bracing ourselves against the global financial storm. In a globalized world, no economy can escape from its fierce damaging force. In HK, we call it the financial tsunami. The impact is much worse and more widespread than the Asian financial turmoil we experienced in 1998. So what have we done? What is our game plan to deal with the challenge?

We have implemented many measures. I'll highlight a few –

To relieve the intense stress in the global money market, we have adopted temporary measures to provide liquidity assistance to the licensed banks in HK on their request. I want to emphasize that HK's banking system remains strong and robust, with capitalization well above international standards. The measures aim mainly to promote confidence and monetary stability in HK. That is why we have also decided to give full guarantee of deposits held with all authorized institutions in HK until the end of 2010. In addition, to facilitate SMEs in obtaining immediate cash flow relief from the commercial lending market in the face of the current credit crunch, we have set up a time-limited Special SME Loan Guarantee Scheme to provide C\$1.5 billion [HK\$10 billion] in liquidity to the commercial lending markets for SMEs. The Government will provide a 70% guarantee to the loans granted by the participating lending institutions.

We have also put up immediate measures to offer better protection for exporters, and assist them to acquire funding from banks, get export credit insurance, increase the insurance cover, extend the coverage to more emerging markets and at the same time lower the premium. All these, of course, will be done within the bounds of prudent credit assessment and risk management.

Despite the gloomy global economic outlook, and an expected budget deficit next year, we will maintain our public expenditure on infrastructure as well as social services for the disadvantaged. We will expedite many of the major infrastructural projects. Within the next two years, we will start the construction of a new cruise ship terminal at the old Kai Tak Airport site, the HK-Zhuhai-Macao Bridge that will span 29.6 km across the three cities, the Guangzhou-Shenzhen-HK Express Rail Link which will shorten the commute time between HK and Shenzhen to 14 minutes, and the West Kowloon Cultural

District which will become the arts and cultural centre of HK. We will also continue to reinforce HK's position as a global financial centre, and will continue to stick to the principle of "*Big market, Small government*" by providing business with the best possible environment to grow and prosper.

The recent announcement by Premier Wen Jiabao on the 586 billion US dollars investment package further strengthens our confidence in overcoming the current financial and economic turmoil. The economic stimulus in the package ranges from building affordable housing to infrastructural projects, from advancing development of medical care, culture and education to ecological and environmental projects. Beijing is determined about promoting and managing growth carefully. And HK will certainly benefit from this.

Hong Kong is not fighting a lonely battle. I believe Canada has also adopted strategies to cope with the situation. In this context, what opportunities are there in Hong Kong for Canadian companies? My quick and short answer to that is – there are plenty of opportunities in HK.

I am not going to repeat why HK is a paradise for business and why HK is a preferred base for international companies in Asia – our very low taxes, the rule of law, access to information, etc. etc. My ETO colleagues advised me that the HK Canada Business Association has done such a great job promoting HK, and Vancouverites are so well connected to HK, that you can recite these HK advantages back to me.

And I am not going to delve into the technical details of CEPA, the special free trade arrangement between HK and Mainland China that gives HK enhanced access to the Mainland market. I will highlight the most recent development. We recently signed the Fifth Annex to the original agreement. We added services incidental to mining, and related scientific and technical consulting services, to the many services sectors that are already enjoying the special WTO-plus treatment under this CEPA. Because this free trade arrangement is nationality neutral, Canadian companies can take advantage of it, by either setting up operations in HK, or by finding registered HK companies as partners. My ETO colleagues have set up a display outside and have made available for you a lot of materials on it.

In the interest of time, I am going to focus the rest of the time on areas which I believe should be of specific interest to Canadian companies. I know BC produces wine, and is particularly strong in the environmental technologies, IT and innovation, amongst other sectors. So I am going to focus on what we are doing in HK in these areas and the opportunities available for you.

On WINE, the Asian wine market is full of promising potential. The value of wine imported into Asia (excluding Japan) is expected to reach up to US\$1.5 billion by 2017. Within Asia, Mainland China is the biggest wine importer. Strong economic growth, increasing prosperity and changes in lifestyle have led to demands for wine in Mainland China going up dramatically. The trade anticipates that wine imports into Mainland China will grow to as much as US\$870 million by 2017, or 58% of the Asian market.

To help our trade capitalise on this growing market, we have reduced our wine duty from 40% to zero earlier this year. That makes HK the first free wine port among the major economies. We have also introduced customs facilitation measures, such as allowing customs inspection to be conducted at the traders' premises which usually have temperature and humidity control, instead of at border control points. We are identifying more possible heritage sites for wine-related uses, and so forth. The market has reacted swiftly. Wine imports into HK have increased; wine trading and distribution business have grown; companies are expanding their storage facilities; wine auctions have been held with record-breaking sales and more auctions are being lined up. Our TDC, Trade Development Council, held its first international wine fair this August. It attracted over 240 international wine merchants from over 25 countries. I am pleased that over 80 Canadian delegates from 45 companies participated, and a Canadian winery in Prince Edward County in Ontario won an award. The response was so favorable that TDC decided to run this fair annually.

As for the environment, we are further strengthening our co-operation on environmental protection with the Guangdong Provincial Government. We have reached a consensus with Guangdong on jointly transforming the Pearl River Delta Region into a green and quality living area by promoting

environmental protection and sustainable development. Hong Kong and Guangdong will work together in the areas of post-2010 emission reduction arrangements, the optimisation of the fuel mix for power generation, the development and wider use of renewable energy, vehicle emission reductions, scientific research, etc. All these are business opportunities for eco-companies in Hong Kong and Canada.

As we all know, there are many Hong Kong-owned factories in the Pearl River Delta Region. To help them to adopt cleaner production technologies and practices, we have launched a C\$15 million [HK\$93 million] Cleaner Production Partnership Programme earlier this year. A 100% tax deduction for capital expenditure on environmental protection machinery is also being provided.

So, I believe that companies and service providers in Canada that can offer green technologies and management practices should be interested. They can take advantage of the opportunities through CEPA, or by partnering with HK companies, or by participating in the many trade shows that our Trade Development Council organizes regularly. For example, we just had the Eco Expo Asia in HK in October. This environmental trade fair, with an amazing display of innovative and environment-friendly technologies, equipment and products, attracted close to 600 exhibitors from about 20 countries and numerous buyers from all over the world.

I will now turn to the area of Innovation & Technology, which Canada is strong in. China places strong emphasis on innovation. Its 11th Five Year Plan stresses the upgrading of the capability and technology level of its enterprises. HK enterprises have a key and active role to play in supporting our nation's technological development.

I am delighted to say that in my short time in this job, I have seen for myself that HK is by no means short of innovation and creativity. A case in point is the development of the Octopus Card. Adopting RFID technology, the Octopus Card has grown from a fare collection system for mass transportation back in 1997 when it was first launched, to an extensive and diversified platform for both payment and non-payment transactions, including access control and gathering of management information. It has become one of the world's most successful electronic cash systems. It has over 17 million cards in circulation in HK, more than twice the population of HK. It records 10 million transactions per day, providing services to over 2,000 vendors. It has become so successful that it has inspired the development of the Oyster card in the UK and similar payment systems in the Netherlands and Dubai.

We are proud of this HK invention. The application of smart card technology has not only benefited our city life, it is also a classic example of homegrown technology being exported. I understand a delegation from the Vancouver Board of Trade led a study tour to HK earlier this year and the Octopus Card was one of the subjects they studied. Henry and Darcy, I hope the delegation has found the trip useful and gotten the information you need on this Octopus Card system. Actually, "smart card applications" will be one of our themes in the 2010 Shanghai Expo. Our pavilion will be called "Smart Card, Smart City, Smart Life". We will use this technology to showcase our innovative and creative talent to the international community.

We also recognize that research in the fields of science and technology are vital. We have established a C\$80 million [HK \$5 billion] Innovation and Technology Fund since 1999 to drive innovation and technological upgrading in Hong Kong's manufacturing and service industries. The Fund provides funding in many different technology areas, and has been instrumental in building research capabilities and industry upgrading in Hong Kong.

And there are more. SME is the backbone of our economy, constituting 98% of the business establishments in Hong Kong. We have set up a Small Entrepreneur Research Assistance Programme, or SERAP, to assist technology start-ups. SERAP provides pre-venture capital funding on a matching basis to technology entrepreneurs and small technology-based companies to undertake innovative projects with a reasonable chance of success. So far we have allocated more than C\$40 million [HK\$280 million] for 276 applications. The scheme has been extended with relaxed criteria so that over 99% of local enterprises in HK are now eligible to apply for funding assistance.

I can cite one enterprise that has benefited from this special funding programme. They successfully developed biometric face recognition technology, which was adopted and used for security and access control purposes by the Beijing Olympics.

Another area in which the HK Government is taking positive steps is in respect of high level R&D. In the year 2000, we set up the Applied Science and Technology Research Institute, or ASTRI, to perform high quality R&D and commercial application of scientific innovations and products. Over the years, we have many notable successes. For instance, we saw the development of a smart Wi-Fi antenna that is able to broaden the Wi-Fi area coverage to 10 times that of other similar products in the market. This technology has already been adopted in Wi-Fi base station products overseas. Another Hong Kong-based electronics enterprise won a contract to be the specified outsource set-top box manufacturer of the Shanghai Network TV Station, the pioneer in launching Internet TV services on the Mainland. These are only two of the many successful cases.

As we all know, commercialisation of products emerging from R&D facilities is not a simple process. One of the keys in turning a good idea into a successful commercial product wanted by the market is summed up in one word: design. Design is at the heart of all popular products for the simple reason that good design sells.

For this reason, we have established a Design Support Programme to support research and education on design, and to facilitate industry collaboration and branding promotion. We also set up an InnoCentre to provide one-stop service to industry by linking designers and potential clients together. Our goal is to brand Hong Kong services and products to stand for innovative design and good quality.

Many people do not know that we have close collaboration with many Mainland institutes in carrying out applied R&D work. Under the framework of what we called the Shenzhen-Hong Kong Innovation Circle, we have succeeded in attracting DuPont to locate its global business headquarters and its Solar Energy Thin Film Photovoltaic R&D Centre here in Hong Kong Science Park, while placing a manufacturing facility in Shenzhen. The strategy is to capitalise on the strongest attributes of Hong Kong and Shenzhen respectively. This is a model for many other enterprises. This is an example of how Hong Kong has a role to play in China's development, and how Canadian businesses can tap into it through HK.

I have just updated you briefly on HK's game plan in the face of the financial tsunami. Our Chief Executive has used the phrase "turning crisis into opportunity". I prefer that old saying, "When the going gets tough, the tough get going," because I have seen Hong Kong people face up to challenges as great and overcome them with their hard work and determination. This indomitable spirit of the Hong Kong people has been the driving force behind our success in the past. At the same time, we also appreciate and continue to look for support from friends and supporters of HK like you. As you have just heard, there are plenty of opportunities for Canadian businesses in HK arising from all the activities and projects I highlighted. I will work to further strengthening the close trade and economic ties between HK and Canada, and I look forward to seeing more Vancouver and BC companies in HK.

Thank you.

November, 2008