

Address by
Secretary for Constitutional & Mainland Affairs,
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to Hong Kong-Canada Business Association, Vancouver Chapter
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Free Trade and Democracy : Hong Kong's Future

When I first arrived in Canada to establish the Hong Kong Economic and Trade Office in Toronto in 1991, you were fully engaged with the United States and Mexico to conclude a North American Free Trade Agreement. In the last two decades, free trade has been established among many regions and, as a result, brought about more economic growth and prosperity.

Free Trade

In Hong Kong, over the decades we have espoused multilateralism, but we have also had some experience with regional free trade. Between 1997 and 2003, Hong Kong's economy suffered from the recession brought about by the Asian Financial Crisis. Unemployment exceeded 8 per cent; real estate and stock values depreciated by more than 50 per cent. Eventually, it took SARS to bring Hong Kong's economy to rock bottom. But thereafter, we rebounded.

In 2003, after SARS subsided, Hong Kong entered into a free trade arrangement with the Mainland of China. We called this arrangement the "Closer Economic Partnership Arrangement" (CEPA). This was made possible because China gained accession to the World Trade Organisation (WTO) in December 2001. Also by virtue of the Hong Kong Basic Law, our mini-constitution, after 1997, we could retain our WTO membership as "Hong Kong, China". So, very uniquely, we have a free trade agreement within "One Country", because we have "Two Systems".

This free trade agreement has put Hong Kong in a very favourable light internationally. Hong Kong was the first economy to conclude such an arrangement with Beijing. As a result, between 2003 and 2008, the number of regional headquarters and offices established in Hong Kong increased by 20 per cent to over 3,800. In the meantime, because CEPA allowed Mainland residents to come and visit Hong Kong as individual travelers, the tourist traffic from Mainland to Hong Kong increased substantially. Previously, they could only come as part of packaged tour groups. In 2008, we had over 29 million tourists visiting Hong Kong; about 60 per cent (i.e. almost 17 million) came from Mainland China.

Also, between 2003 and 2008, Hong Kong's GDP increased by 35.4 per cent in real terms.

Financial Tsunami

The progress we made in the last six years in strengthening our economy has prepared Hong Kong well for withstanding the impact of the global financial tsunami. The Hong Kong Government holds substantial reserves. Our fiscal reserves stand at HK\$530 billion, and our exchange fund reserves at HK\$1,380 billion.

Also, because our banks and financial institutions had survived the Asian Financial Crisis in the 1990s, their balance sheets are relatively more healthy than their United States or European counterparts. Their business practices are more prudent.

Thus, no banks in Hong Kong have failed, nor have any required Government capital injection.

The financial tsunami has had some impact. Unemployment increased from a base of 3.2 per cent last year to 5.3 per cent currently, but this has begun to stabilise.

Co-operation with Mainland China

Aside from the current economic situation, since I manage the Mainland Affairs portfolio, I should bring you up-to-date on the prospects of Hong Kong's further co-operation with the Mainland.

After the commencement of the "Four Modernisations" in 1978, China has made tremendous progress in the last 30 years. China is now the third largest economy in the world. Further down the road, it may overtake Japan as the second largest economy. Hong Kong has invested extensively and particularly in the Southern China. Currently, there are over 100,000 Hong Kong factories and companies employing over 10 million workers in the Pearl River Delta and in Guangdong.

The coastal regions of China are particularly well-developed. In the provinces of Fujian and Guangdong, the per capita GDP exceeds RMB30,000. By comparison with the West and with Hong Kong, the cost of living is still relatively low in the Mainland. Thus, in PPP terms, these per capita incomes would have quite an impressive purchasing power.

In the light of the financial tsunami, the Mainland authorities have taken many steps to sustain economic growth for 2009 at eight per cent. Governors of various provinces we have met recently have affirmed that they are on track of meeting this target.

This is important to the Mainland, because they rely on sustained growth to provide employment to the six million university graduates every year.

This news of sustained growth also bodes well for Hong Kong, because this means that our extensive investment in the Mainland will continue to have prospects for a healthy return.

Looking further afield for the next 20 or 30 years, we need to map out a broader strategy. The Central Government has provided Hong Kong with precisely that opportunity.

In January this year, the State Council issued a document called the “Framework for Development and Reform Planning for Pearl River Delta Region”. The essence of this document is to facilitate closer co-operation between Guangdong and Hong Kong to ensure that Hong Kong’s professionals and service industries will gain even better access to the Mainland market.

For example, under the supplemental agreements to CEPA concluded in 2008 and 2009, subject to certain conditions, our accountants, doctors and lawyers can already gain access to the market in Guangdong. Subject to successful implementation of these measures in Guangdong, we intend to broaden our involvement in the service industries in other regions of Mainland China.

Our strategy is very simple. At the moment, about 90 per cent of Hong Kong’s GDP is composed of services. We wish to take two steps to extend our horizons.

Firstly, we need to go beyond our local Hong Kong market of 7 million people to the 50 million in Guangdong’s Pearl River Delta.

Thereafter, we intend to extend the market for our professionals and service providers to cover over 400 million people in what we call the “Pan-Pearl River Delta” comprising nine provinces in southern and western China. Since 2004, we have already established an economic co-operation forum with these nine provinces.

Pursuit of Universal Suffrage

So much for economics and Mainland relations - a word about the prospects for democratic development in Hong Kong.

Those of you who have followed Hong Kong’s public affairs will know that the Basic Law

stipulates that the ultimate aim of Hong Kong's electoral systems is to elect the Chief Executive and the Legislative Council by universal suffrage.

In 2007, when Mr. Donald Tsang stood for election as the third term Chief Executive, he undertook that he hoped to forge consensus within the community on the issue of universal suffrage within the new term of office, so as to implement universal suffrage as soon as possible.

On July 11, 2007, the Administration published the Green Paper on Constitutional Development. Following three months of public consultation, in December 2007, the Chief Executive submitted to Beijing a report basically proposing that a universal suffrage timetable be adopted.

Beijing responded positively and decided that the Chief Executive may be elected by universal suffrage in 2017 and that thereafter, in 2020, all Members of the Legislative Council may also be returned by universal suffrage.

This was a momentous development for Hong Kong. For over 20 years, we have been debating about the direction and pace for rolling forward democracy in Hong Kong. Now that we have a universal suffrage timetable, the stage is set for Hong Kong to mature as a democratic jurisdiction over the course of the next decade.

Both the Government and political parties in Hong Kong have a clear responsibility to turn this into a reality for the people of Hong Kong.

In the meantime, the Hong Kong Government would also wish to bring Hong Kong's electoral system to a mid-way point in 2012. We are preparing for another round of public consultations in the fourth quarter of this year, focusing in particular on the Chief Executive and Legislative Council election proposals for 2012.

We need to consider various options, for example, the possibility of increasing the number of seats for the Legislative Council from the current number of 60. This would broaden the scope for political participation for young and aspiring politicians. We hope that this will pave the way for implementing universal suffrage in 2017.

Conclusion

In concluding, I would like to emphasise three points.

Firstly, Hong Kong has always been a free society, an open economy and a jurisdiction governed by rule of law.

Secondly, I firmly believe as we move towards universal suffrage, between now and 2017, Hong Kong will mature even further as a civilised and democratic community.

Thirdly, with further co-operation with the Mainland hereafter, our position as the pre-eminent international financial centre in Asia will be strengthened.

I would encourage our Canadian friends to continue to invest in Hong Kong. By so doing, you will also be investing in Canada's future.

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