

Budget Speech by the Financial Secretary (3)

Global Political and Economic Landscape

26. In last year's Budget, I mentioned three major global trends, namely rising trade protectionism, unstoppable wave of innovation and technology (I&T), and the shift of world economic gravity from West to East. The changes over the past year have unveiled a new situation, new landscape, and new norm of global politics and economics. We must analyse and study these to identify the positioning and future direction of Hong Kong when considering the way forward for our economic and social development.

US-China Relations

27. First, the US-China trade conflict over the past year has revealed the underlying differences between the two sides, which include technology matters as well as other more deep-seated considerations. While it would be encouraging if the trade issue could be resolved to some extent, their deep-rooted differences may remain. The fluctuating US-China relations may turn the global economy volatile for some time. Furthermore, trade conflicts will undermine multilateralism and the free trade regime, with far-reaching implications on the global governance system and international order. The future global industry setting will also be changed by the new trade regime and relationship.

International Co-operation

28. Second, the rise of nativism and populism in various countries has brought changes to their political scene, affecting their foreign and economic policies. Such development undermines the growth of multilateral free trade and affects international trade flows.

29. The financial tsunami in 2008 was the most severe economic crisis since the Great Depression in the 1930s. Thanks to concerted global effort, the world successfully averted catastrophic consequences, and the global economy gradually resumed growth. However, the growth of the major advanced economies have not yet returned to the levels before the financial tsunami, and still need to rely on ultra-low interest rates or unconventional monetary policies. Given that the interest rates remain very low, there would be little room for introducing rescue measures if a major economic or financial crisis were to happen again. More importantly, the rise of nativism nowadays may make an international concerted effort and a swift response more difficult.

Developing Asia

30. Third, emerging Asian economies (including ASEAN and India) have huge

growth potential and present us with enormous business opportunities. With an average annual growth of 6.3 per cent over the past five years, they contribute about a quarter of global economic growth. Moreover, the IMF forecasts that emerging Asian economies (excluding the Mainland) will still attain a growth rate of over 6 per cent in 2019 and 2020.

31. In the past, the economic development of Asia was primarily based on the model of “production in Asia and consumption in Europe and the US”. With the emergence of a larger and richer middle class in Asia, it will not only lead to “production in Asia and consumption in Asia”, but also result in a growing demand for European and the US consumer products from Asia in the future. In addition, due to the US-China trade conflict and the rise of protectionism, some emerging Asian economies will benefit from the changing pattern of the global supply chain. Hong Kong must ride on these new developments, leveraging our strengths as the supply chain management centre and trade centre in Asia.

National Development

32. Fourth, China’s 40 years of reform and opening up has not only transformed its economy and society, but also made it the second largest economy in the world and the main engine of global economic growth. This is a remarkable achievement. Since the 19th National Congress of the Communist Party of China, the Mainland has been steering its economy from rapid growth to high-quality development. The Mainland is seeking to change its mode of development, optimise its economic structure and identify new growth engines. We should pay particular attention to the following areas in which our nation is pushing ahead in full steam:

- (a) intensifying supply-side structural reform, accelerating the development of advanced manufacturing, and promoting deeper integration of the internet, big data and artificial intelligence with the real economy;
- (b) using innovation to foster economic development, with emphasis on scientific research and technology application;
- (c) building a strong domestic market with domestic consumption remains the main engine of economic growth;
- (d) implementing the Greater Bay Area development and the Belt and Road Initiative; and
- (e) pursuing further reforms and opening up to stabilise foreign businesses and investments; and promoting the new direction of two-way opening up with equal emphasis on “going global” and “attracting foreign investment” to boost two-way investment and trade flows between China and other countries.

33. As seen from the above, although the Mainland is facing a complicated external environment and its economic development is encountering challenges, we should focus on the long term trend and recognise that our country is at an era of the strategic opportunities which offers promising development

prospects in the long run.

Development of Innovation and Technology

34. Fifth, the rapid development of I&T is ushering in a new era. Not only does it reshape production and business models, but also brings significant changes to our daily lives and consumption. For example, artificial intelligence may bring significant breakthroughs in advanced areas such as healthcare. However, some of our jobs may be replaced, causing a blow to the labour market. While we benefit from the convenience and opportunities brought by the rapid development of I&T, we should be well-prepared for the change by making corresponding adjustments in areas such as development of industries, education and vocational training.

(To be continued.)