

Speech by CE at Asia House Future of Trade conference (English only) (with photos/video)

Following is the speech by the Chief Executive, Mrs Carrie Lam, at the Asia House Future of Trade conference this morning (October 30):

Lord Green (Chairman of the Asia House, Lord Green of Hurstpierpoint),
Michael (Chief Executive of the Asia House, Mr Michael Lawrence),
distinguished guests, ladies and gentlemen,

Good morning. It's been nearly two years now since Asia House last held its inaugural international trade conference here in Hong Kong, and I'm delighted to welcome you back.

Over these past two years, some things have changed, some have not. Allow me, first, to address the daunting change we've been experiencing today, both globally and locally.

Let's start with the big picture. The International Monetary Fund (IMF) released earlier this month its latest "World Economic Outlook," downgrading growth in 2019 to 3 per cent. That's the slowest pace we've seen since the global financial crisis more than a decade ago. The IMF puts the blame on – and I quote – "a sharp deterioration in manufacturing and global trade, with higher tariffs and prolonged trade-policy uncertainty damaging investment and demand for capital goods."

To be discreet, weakened trade relations between the United States and Mainland China are central to the IMF's concerns – and, I should think, the concerns of all of us in this room.

At the 2017 Asia House conference, I mentioned the worrying signs of rising protectionism. At the time, I was speaking of economic inequality, noting that the gains of globalisation were not being broadly enjoyed, that we needed to find ways of making economic development more inclusive. I certainly did not anticipate the turmoil and the conflict now facing international trade and the global economy, but I'm quite sure I'm not alone in that.

The overall outlook, again to quote the IMF, "remains precarious." Hardly good news for global trading, and certainly not for Hong Kong, a major entrepot for trans-Pacific trade and commerce, an economy powered largely by small and medium enterprises. In the first half of 2019, Hong Kong's economy grew by just 0.5 per cent. Full-year results are likely to be no better. In terms of trade for the first nine months of 2019 as a whole, the value of total exports of goods dropped by 4.6 per cent over the same period in 2018. Concurrently, the value of imports of goods decreased by 6.5 per cent. Apart from trade, related service sectors, including shipping and

logistics, have also been affected by the global slowdown. As uncertainties in the external environment will likely persist for some time, the near-term outlook remains dismal.

Added to the external challenges are our internal social disruptions, which are so unfamiliar to Hong Kong – a law-abiding city which is one of the safest in the world. Triggered by objection to a legislative proposal aimed at plugging a legal loophole and strengthening mutual legal assistance on criminal matters including the surrender of fugitive offenders, what started off as peaceful protests, a hallmark of Hong Kong's rights and freedoms, have turned into violent acts by rioters, despite Government's withdrawal of the Bill. The increasingly violent reality since June is hurting Hong Kong's economy. The continuing unrest has crippled our retail trade, as well as catering, transport and numerous other businesses associated with the tourism industry. In the first half of this month, the number of visitors dropped by about 50 per cent compared to last year. As for retail, the latest figure we have is that retail sales in August fell by some 25 per cent from a year earlier, which is the steepest year-on-year decline for a single month on record.

It is a distressing time for Hong Kong trade and business. Equally so for the community at large, for the Hong Kong SAR Government and for myself. Nothing justifies violence and our first priority must therefore be to end violence and restore law and order as soon as possible. The Hong Kong Police, which has displayed courage and restraint as well as every agency in the Government, are working in concert with determination to achieve that single objective. Once calmness returns, we are committed to finding solutions to some of those deep-seated problems revealed by the extensive protests over these past four months, including probably the social divide and insufficient inclusive growth I touched upon in my speech two years ago.

For that purpose, I have been in direct dialogue with the community, speaking and listening to individuals and groups, large and small. I have also undertaken to invite community leaders, experts and academics to conduct an in-depth and independent examination of the social conflicts in Hong Kong and the deep-seated problems that must be addressed.

For example, two weeks ago, I delivered my annual Policy Address, presenting significant measures focused, in particular, on housing and land supply – two of the biggest challenges we face in creating long-term harmony and inclusivity here in Hong Kong.

We are also responding to the very real economic hardships business here is struggling with. In August, September and again just last week, my Government has announced substantial support measures. Taken together, they add up to over \$20 billion. The initiatives are designed to help small business through this trying time, designed, too, to help the people of Hong Kong cope with the community-wide crisis.

The actions I mentioned are not meant to be the solution to the problems that Hong Kong is facing today. Indeed, for any of our actions to achieve the desired effect, it is important that we hold fast to the principles that have

made Hong Kong one of the world's most successful financial and trading economies.

Those principles are clear and immutable. First, we must adhere to the "One Country, Two Systems" principle that distinguishes Hong Kong from any other economy in the world. Indeed, events unfolding in the past few years clearly affirm that we must both adhere to the "One Country" principle and respect the differences of the "Two Systems".

Second, the rule of law – the cornerstone of Hong Kong's remarkable success – must be safeguarded at all costs. That includes strict and impartial enforcement of the law, and acceptance of its preeminence by the people of Hong Kong.

Third, we must continue to embrace the institutional strengths that have shaped our international success so well for so long. I'm talking here of such fundamental values as our independent judiciary, our robust regulatory bodies, our clean government, our free press, the free flow of capital, people and information, and our longstanding commitment to human rights.

We must, as well, find a way of returning trust to a divided community. This is of course incumbent upon this speaker and my Government. And we will not rest – I will not rest – until we have found a peaceful, harmonious and inclusive path to the future for Hong Kong. If you ask me if I have confidence in that vision, I do. That indomitable spirit of Hong Kong will see us through this testing time.

So, yes, we are contending with two very considerable changes since we last talked. What hasn't changed, I'm pleased to tell you, is the stability of Hong Kong's financial system. Our currency remains freely convertible, and our banking system, flow of funds and stock market are all functioning as you would expect of a global financial capital. It's why, just last month, the Global Financial Centres Index once again ranked Hong Kong among the world's leading financial centres, behind only New York and London.

Our deep pool of multi-talented, multilingual professionals drive Hong Kong's financial services. Alongside their wide-ranging expertise, what makes Hong Kong's financial services sector so universally accepted and respected is our unwavering belief in the primacy of free and open trade, Hong Kong, after all, is a founding member, and steadfast supporter, of the World Trade Organization.

That unshakable commitment is why, earlier this month, the World Economic Forum's Global Competitiveness Report ranked Hong Kong third – up from seventh in the world last year. It's why the Washington-based Heritage Foundation has named Hong Kong the world's freest economy for 25 years in a row. It's why we finished second in this year's World Competitiveness Yearbook, produced by the Swiss-based International Institute for Management Development. It's also why Hong Kong ranked third globally among 190 economies, moving up one place from last year, according to the World Bank's Doing Business 2020 Report published last week.

What hasn't changed is Hong Kong's international connectivity and the high degree of autonomy of the HKSAR in conducting her external affairs. Hong Kong is singularly blessed in serving as the multilevel, multilateral business bridge between the Mainland and the rest of the world. It presents us with opportunities available to no other economy and my Government has leveraged on this strength by reaching out and creating connections wherever we can find them. Hence our promotional slogan "Connect and Excel".

When I last spoke before you, Hong Kong had just forged a Free Trade Agreement (FTA) and related Investment Agreement with ASEAN, the Association of Southeast Asian Nations. The agreements have now entered into force for Hong Kong and six of ASEAN's Member States, and we expect full ratification of the two Agreements by all ASEAN Member States before year's end. ASEAN is Hong Kong's second-largest merchandise trading partner, just behind the Mainland of China. Last year, our bilateral trade in goods amounted to some US\$130 billion, up more than 14 per cent compared to 2017. Hong Kong, not surprisingly, is home to over 600 ASEAN companies.

ASEAN's huge infrastructural investment, together with its fast-expanding economy, will generate far-reaching opportunities for Hong Kong companies, and the companies that partner with Hong Kong. We are working to fast-track that promise by expanding our ties with the 10 nations of ASEAN. In February this year, we set up a new Hong Kong Economic and Trade Office (ETO) in Bangkok, Thailand. It's our third ETO among ASEAN member states, joining offices in Singapore and Jakarta.

Our ambitions extend well beyond ASEAN. So, too, do our free trade agreements. We now count eight FTAs, having concluded free trade agreements with Georgia in June last year and Australia just seven months ago. We are also working to join the Regional Comprehensive Economic Partnership, a free trade agreement between ASEAN and six of its FTA partners.

We are also exploring trade options with the United Kingdom following the launch, two years ago, of our Strategic Dialogue on Trade Partnership. That includes the possibility of an FTA down the Brexit road, wherever that road may take the UK. It certainly makes compelling business sense. In 2018, the UK was Hong Kong's second-largest trading partner among the European Union's member states, while Hong Kong was the UK's eighth-largest trading partner outside the EU.

What hasn't changed, ladies and gentlemen, is the Central Government's support for our economic integration with Mainland China. Hong Kong is playing an active part in our country's two far-reaching initiatives: the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and the Belt and Road. In each of these national developments, Hong Kong sees long-term opportunities.

The Greater Bay Area brings together Hong Kong, Macao, the two Special Administrative Regions, and nine of southern China's most prosperous cities in a cluster development. This enormously promising market counts a population of 71 million and a collective GDP of US\$1.6 trillion. That is similar to the GDP of Australia or the Republic of Korea.

The Greater Bay Area will be built on co-operation rather than competition. Each of the 11 cities will lead the way in its fields of expertise. For Hong Kong, the window to the world for the Greater Bay Area, we will drive the region's financial services and trade development, as well as transport and innovation and technology. The GBA development is premised on one country, two systems, three customs territories and three currencies. This is unprecedented around the world and calls for boldness and innovation in trying out a new path.

On finance, companies in the Greater Bay Area will look to the Hong Kong Stock Exchange to raise capital through IPOs and bonds – green bonds included. Hong Kong is emerging as a centre for green finance. Total green bonds issued in Hong Kong amounted to US\$11 billion last year. And in May this year, the Hong Kong SAR Government issued its inaugural green bond, attracting orders more than four times its issuance size. In addition, we are looking to expand channels for two-way, cross-border Renminbi fund flows. That would only accelerate financial co-operation within the Greater Bay Area.

Hong Kong's services prowess extends well beyond financial services. Our accountants, lawyers and legal and dispute resolution experts, as well as education, construction and medical professionals, among many others, are world-class. They will help open up the Greater Bay Area to a world of business opportunity.

Innovation and technology will be at the heart of the Bay Area development, and Hong Kong is destined to play a key role in this sector with our renowned universities and our pool of research talents. My Government, in just over two years, has invested about US\$13 billion or about HK\$100 billion in I&T programmes and initiatives, including two research clusters now rising at the Hong Kong Science Park. One will target artificial intelligence and robotics; the other will focus on healthcare technology. And, in partnership with Shenzhen, we are developing a major innovation and technology park in Hong Kong, near the boundary with Shenzhen.

My Government has been working with Guangdong and Macao to market the Greater Bay Area overseas, including promotions in Tokyo in April this year and Paris last year. We'll do the same in Australia in the coming year.

Hong Kong's recognised fundraising expertise and financial services talent will also help power the Belt and Road Initiative. We have the experience and the international connections to match international fundraisers and investors with project owners from the Mainland and around the world. Our financial options are extensive, ranging from IPOs and post-listing arrangements to bond issuance, loan syndication and much more. And, as the Renminbi grows as a currency of choice for Belt and Road projects, we will also play a vital role in its use and management. Hong Kong, after all, operates the largest pool of offshore Renminbi funds in the world, as well as the largest offshore Renminbi foreign exchange and interest-rate derivatives markets.

Hong Kong will also contribute to capacity building in some of the Belt

and Road countries to enhance people-to-people bonds in this major global initiative. Our anti-corruption agency, universities, training academies, etc are already providing advisory and training support to participants from the Belt and Road countries. In my latest Policy Address, I announced that the Government will assist local enterprises and professional services to not only explore these new overseas markets, but also to consider setting up businesses in the Mainland's Economic and Trade Co-operation Zones along the Belt and Road by extending to Hong Kong enterprises the incentives and facilitations currently enjoyed by Mainland enterprises.

So ladies and gentlemen, despite our deeply concerning community issues and the rather negative perceptions of Hong Kong overseas as we have been unfairly portrayed, let me end by emphatically saying that Hong Kong will continue to play a pivotal role in global trade, and my Government will double our efforts to reconnect.

My thanks, once again, to Asia House for bringing this prestigious event to Hong Kong. I wish you all a very stimulating day of discussion and debate, and the best of business in the coming year. I look forward to seeing you again. Thank you very much.

