

Turning Crisis into Opportunity: Why Hong Kong Should be Part of Your Global Business Strategy

An address given to the Los Angeles World Affairs Council
on 17 November, 2008 by The Honorable Rita Lau, Secretary of Commerce and
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Like Hong Kong, Los Angeles is a place enriched by the contributions of immigrants from around the world - on the doorstep of a dynamic hinterland. In your case, that hinterland is Southern California and the rest of this remarkable State. For Hong Kong, it's the Pearl River Delta, which has been the fastest growing region of the fastest growing large economy in the world.

The fruits of this economic progress were reflected in the Olympics hosted by China in August, which I'm sure many of you watched. Hong Kong was proud to be the venue for the Equestrian events, in which several California riders and horses excelled. The success of the Olympics and the enthusiastic participation of many competitors from California—Kobe Bryant immediately comes to mind—helped lift our spirits.

We are now experiencing another time when our spirits, not to mention our portfolios, need some lifting. It may be an especially good time to be in the "City of the Angels." The global economic turmoil has affected all of us. California and the US—like Hong Kong and the whole of China—retain strong fundamentals which have been tested and fortified by earlier crises.

I want to reassure you that the attributes that have made our city the preferred location for international businesses serving the Asia Pacific region—including sound financial policies and management—have not changed and have even been enhanced.

The continued interest in Hong Kong by international investors, which I will discuss later in more detail, confirms that we retain the many attractions that make us a business and financial hub, and the preferred location for multinational companies to establish regional headquarters.

Indeed, many of Hong Kong's advantages have been highlighted by the way we have dealt with the current and previous financial crises, such as the serious one in Asia a decade ago. I am confident that the people of Hong Kong have the skill, can-do spirit, and ingenuity to meet the challenges and to emerge stronger than ever.

Today, I want to talk about these and other fundamental strengths of Hong Kong. We are attuned to the needs of the marketplace. It is where East meets West. And we are on the doorstep of the fastest growing large economy in the 21st century, the Mainland of China.

My visit to Los Angeles comes when we are recognizing an important anniversary. Thirty years ago, Deng Xiaoping initiated the "opening up" policy that led to rapid economic development and

a dramatic rise in living standards for our country. Then, China was a poor, underperforming economy; today, it is the third largest economy in the world.

During the same time span, Hong Kong has changed dramatically as well. To keep up in a highly competitive region and world, we have had to reinvent ourselves in many ways. In 1978 we were a manufacturing base, which accounted for 25 percent or more of our economy. We produced fine products in the cheapest possible way and we marketed ourselves as such.

But we changed with the times and the competition. Ours is now a very much service-based economy—accounting for some 90 percent of GDP—and we are rapidly moving towards a knowledge-based economy.

The transformation is a response to global trends and is necessary if we are to achieve our vision to be Asia's world city. During the past 30 years, Hong Kong has established itself as the undisputed hub for American and other international companies wishing to do business in the Mainland, the rest of Asia and globally. Increasingly, we also market Hong Kong to Mainland companies encouraging them to use us as a springboard for the Asia Pacific region and indeed the world. As a result, Hong Kong and China as a whole are still attracting substantial investment, and more business than ever before. US and European companies in particular, are looking at our region as a promising opportunity for the future development of their businesses in the midst of economic uncertainty.

Some 3,900 other overseas and Mainland companies have chosen Hong Kong as their regional headquarters or office. It's a number that has risen by over 50 percent in the past decade, and which makes us the most popular city in Asia for foreign companies. At the same time, more companies have opted to base global operations and executives with global responsibilities in Hong Kong, including some US banks. Earlier this year, DuPont announced it would locate one of its new global businesses in our Science Park. McDonald's headquarters its Asia, Pacific, Africa and Middle East operations in our city.

Inward foreign direct investment (FDI) rose to just under US\$60 billion in 2007, the second highest in Asia Pacific and 7th in the world, according to the UN Conference on Trade and Development's (UNCTAD) annual World Investment Report. For the first half of 2008, another US\$34.4 billion in FDI has come into Hong Kong, some 27% more than the same period in 2007.

These numbers underscore Hong Kong's strong appeal to a growing number of international companies as a platform to reach Mainland China, as well as the Asia-Pacific region. I'm told by Invest Hong Kong—the government department responsible for attracting and assisting companies from around the world to establish or expand operations in our city—that they are still bringing in new investments at a rate of one new completed project every working day.

American companies continue to be responsible for a large proportion of this investment. For at least 170 years, Americans have contributed substantially to Hong Kong's growth and success. This long history of trade and investment has culminated in the US being Hong Kong's second largest trading partner, totaling \$65 billion in 2007. The US also is one of the largest foreign investors in Hong Kong, at \$35.6 billion.

The 55,000 Americans and more than 1,100 American companies in Hong Kong are a vibrant and diverse group, including financial services, electronics, IT, chemicals, energy, consumer

products, transportation, retail, media and a vast array of professional services. Most of the companies are members of the American Chamber of Commerce in Hong Kong, our city's largest and most active international chamber.

Many of these firms are from California. They include not only industry leaders like Apple, Bechtel, Cisco, Hewlett-Packard, Oracle, Cathay and East West Banks, bio-tech firms like Amgen and restaurant chains like Bubba Gump, but many of them are smaller companies using Hong Kong as a platform to reach Mainland China. And, of course, we even have our own Disneyland on Lantau Island near the world's best airport.

As the leading strategic entry point for businesses seeking to establish themselves in Asia, Hong Kong is a logical place from which to manage Asian operations. There are 312 regional headquarters and 612 regional offices of US companies in Hong Kong, substantially more than from any other country.

Our close ties have enriched both of our societies and contributed substantially to our economic development and competitiveness. We recognize the importance of your companies' vital role in bringing in new ideas, services and technologies into Hong Kong to strengthen the overall competitiveness of our economy.

Why is Hong Kong doing so well in attracting American and other companies from overseas? These companies came to Hong Kong because they are convinced that it is the place for their line of business, and because Hong Kong is the best place in the world for doing business.

It's not because we offer extensive tax, land or financial incentives like some other governments in Asia and globally. We do not need to offer special deals because our whole tax system is an incentive: our taxes are low and the system is simple and predictable. The rates became even lower earlier this year. And the duty on wine and beer dropped rather dramatically—to zero. We definitely could use even more California wine in Hong Kong.

It is our firm belief that the best incentive is the quality and strong fundamentals of our business environment and the future potential in Hong Kong and our region.

Our city has benefited tremendously from a much closer relationship with our sovereign, China. At the same time, we have not lost any of the characteristics that set us apart in Asia. Our transparent common law legal system and impartial judiciary, low level of corruption, state-of-the-art infrastructure, free flow of information, and a dynamic and cosmopolitan workforce distinguish us from our neighbors and will remain appealing to investors in Hong Kong. Our intellectual property protection regime has been highly regarded by the right holders, such as the Business Software Alliance. The US Trade Representative also commended our enforcement effort in clamping down on infringing activities.

We also have a "clustering" of professional services. Hong Kong has over 400 financial institutions and banks, probably more than any other place in the region except Japan. It is not just banks; there are lawyers, accountants, and all other support services that you need to manage your business in the region. Another advantage is in our hardware. Our efficient roads, railways, telecommunications network, airport and port are unrivalled in this region.

All of these factors are important to Hong Kong as an international financial and business centre. Equally important is that American and other foreign investors bringing their families

with them feel comfortable in Hong Kong. Our city is safe and offers a year-round feast of exciting social, cultural and recreational activities. And your children may choose from among over 50 international schools.

We are located within four hours access by air to almost all Asia's major cities and are part of the fastest growing major economy in the world. We are in the heart of Asia, which makes us the natural hub for doing business in Asia as a whole, and at the heart of the Pearl River Delta, the most economically dynamic region in China.

I referred to the importance of Hong Kong's hinterland earlier. The interaction of Hong Kong and Mainland China, particularly the PRD, has contributed greatly to prosperity on both sides of the boundary. This combination has resulted in the PRD developing into one of the world's leading manufacturing centres, with its clusters of industries and services reinforced by a continuous stream of start-ups and numerous small and medium enterprises.

The ongoing reform and opening up of the Mainland economy, along with cooperation initiatives like the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the Mainland, have further strengthened our economic ties. CEPA covers three areas: trade in goods, trade in services and trade and investment facilitation. It is WTO compliant but many benefits go beyond WTO commitments and are not being offered to other economies at this stage. Importantly, these benefits are available to people and businesses of all nationalities.

All goods of Hong Kong origin, except for prohibited articles, qualify for zero tariff when entering the Mainland of China. CEPA also gives qualified companies based in Hong Kong greater access to the Mainland in 40 services sectors, including banking, distribution, professional services, IT, transportation and logistics and telecommunications—areas in which many US companies excel. It also significantly improves trade and investment facilitation across the boundary.

At the same time, we have extended our close partnership with Guangdong to the Pan-PRD Regional Co-operation and Development Forum, which encompasses the nine provinces of southern China together with Hong Kong and Macao.

Ladies and Gentlemen, we in Hong Kong look forward to playing a more active role in contributing to the sustained growth of our region—and as a partner to California and other American firms looking to strengthen their presence in China. Hong Kong is a global business centre providing the best and lowest risk access to the world's leading market. Our city's advantages are not easily replicated by other cities in the region.

What we have to do is to ensure that we continue to build on these competitive advantages. We are confident that our role as an international financial centre, as a centre for logistics, for transport, for trade, for the clustering of international companies, and for tourism, is unique and remains as strong as ever.

At the same time, we recognize that Hong Kong cannot be isolated from the challenging global economic environment. We will have to work even harder to reinforce Hong Kong's advantages, including our sturdy and reliable financial system, to attract and retain investors from all over the world.



A few years ago, Steve Forbes, the well-known publisher and sometime politician, expressed confidence in Hong Kong's future just as we were emerging from another serious crisis. He said then, "I am confident that Hong Kong has an enormous future as the gateway to critical economies—both to China and the rest of this region. This city is once again at the forefront of entrepreneurship and progress."

Given these promising prospects, we expect many more firms from California will want to be close to the action. They will join the thousands of international companies involved in the China trade have established "beachheads" in Hong Kong.

We welcome the opportunity to help contribute to the success of your businesses in Hong Kong, the Mainland and the Asia-Pacific region. Hong Kong has the institutions, system, regulatory environment and people—notably, our Economic and Trade Office in California—who are ready to provide you with what you need when you need it.

Thank you again for joining me today. I look forward to welcoming you, or welcoming you back, to Hong Kong very soon.

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