

**Speech by the Chief Secretary for Administration
Mr Donald Tsang
at a Hong Kong General Chamber of Commerce luncheon
Island Shangri-La Hotel
June 16, 2004**

Anthony, Eden, chamber members, ladies and gentlemen,

1. Thank you for the opportunity to speak with you today. It is, as always, a pleasure to meet and talk with members of our business community, representing, as you do, such a wide cross-section of enterprise commanding a significant slice of our economic activity.

2. Today, I have come here with an ulterior motive, comprising two requests for our business community. So, while I am used to singing for my meals, I guess that you must now realise that there is no free lunch for you either. You invite me here for a bite to eat, and I end up putting the bite on you!

3. My two requests today are crucial to our long-term development and, as such, they also have a major impact on the business community. One concerns economic development, the other political development, and they are inter-related. I shall start with the economy, because that is the more straightforward of the two.

4. After the setbacks of last year, it is encouraging to see that our economy is showing signs of a strong rebound. Robust growth in the Mainland and healthy external demand are fuelling that recovery. For this, we must never forget to be thankful for the drive and determination of our business sector, which surely must rate as one of the most savvy, entrepreneurial and resilient in the world. And that is why Hong Kong has been able to consistently punch above its weight in the global league of trade and commerce. I believe that will continue to be the case for many years to come.

5. Since the Asian financial crisis hit in 1997, Hong Kong has weathered a prolonged, painful and unsettling period of adjustment. After seven years of hard slog, the foundations have been laid for a sustained recovery. And, if you look at the broader picture, I certainly believe that our medium- to long-term prospects are extremely encouraging. China's

ongoing opening up under WTO discipline; CEPA - which gives Hong Kong firms a head start in that process; enhanced co-operation and links between Hong Kong and Guangdong, particularly the Pearl River Delta; and, earlier this month, the launch of the 9+2 Pan Pearl River Delta grouping, which will bolster economic co-operation in a south China catchment boasting a combined GDP of US\$630 billion and a population exceeding 450 million - comparable in size and economic activity to the 10-nation ASEAN bloc.

6. Hong Kong can, and will, benefit from all of these developments. And, much of what the Government has been doing over the past few years has been designed to mesh to the maximum our existing strengths with those of the rapidly expanding Mainland economy. Major initiatives have been taken in the areas of transport, logistics and the cross-boundary flows of people, goods and capital, in financial services, in the tourism sector and for conventions and exhibitions. Some of these initiatives have already had an effect, such as the surge in Mainland tourists under the Individual Visits Scheme. Others will come on stream, or become more firmly entrenched, over the next two to three years - and this too will have a significant and positive impact on Hong Kong's economy. To name a few: a value-added logistics park on Lantau, the Hong Kong - Shenzhen Western Corridor link, an express cargo terminal at the airport, the Digital Trade and Transportation Network, the complete commissioning of Container Terminal 9, further development of offshore renminbi business by local financial institutions, the development of the local and regional bond market, Hong Kong Disneyland, the International Wetland Park, and the AsiaWorld-Expo at the airport. Each initiative and project is part of an economic jigsaw that is steadily being pieced together to reveal a new picture of the future for Asia's world city.

7. This brings me to my first request, and that is to encourage the business sector in Hong Kong to re-focus on sustaining their long-term competitiveness by investing more in their own workforce. In a modern, globalised economy, the success of a firm is defined by the quality of its human resources - those capable of rejuvenating the firm to meet ever-changing market demands. If you look into the heart of a great city like Hong Kong, you will see that it is our people who make this city great. The economic miracle and free market model that is Hong Kong has been

founded on the initiative, drive, talent and creativity of our population. And, over the decades, they have proved that, given a chance, they will grasp any and all opportunities to improve their livelihood and, even more important, secure a future for their kids, and give them opportunities in life that they did not have. But that pool of youthful human resources is showing signs of shrinking as the Hong Kong community ages and birthrates continue to fall.

8. Over the past few decades, Hong Kong has gradually shifted from a manufacturing-based to a services-based economy. In recent years, rapid economic restructuring, set against a down-swing of the global economic cycle, has continued to push unemployment to higher levels. People have naturally focused on the Government's response and on the growing divide between the "haves" and the "have nots". The Government has been playing its part by allocating unprecedented levels of resources to education, training, retraining, skills upgrading and the establishment of qualifications standards. Industry and business have also been working hand-in-hand with the Government in areas such as quality standards and training.

9. But I am asking the business community today to do more. I am asking the business community to walk an extra mile to treasure, nurture and strengthen their own human resources. I am asking firms to help retrain their employees before their skills turn obsolete or incompatible with shifts in corporate strategy. A firm can often avoid laying off its loyal employees, by absorbing them into other operations within the same or a sister organisation after retraining. In the long run, downsizing does not always make economic or business sense. In a world where skilled, innovative personnel are in growing demand, downsizing can be devastatingly costly. It also ruptures corporate culture and shatters loyalties that make successful companies durable. Employee layoffs can be prevented, or at least reduced, by progressive and anticipatory staff-training programmes. A firm equipped with forward-looking training resources is also best placed to pick up the business stars of tomorrow in the market. Many of them become available in a slack market. By doing this, a firm helps bring down the general unemployment rate.

10. It is no secret that low labour costs north of our boundary are giving our workers a strong sense of insecurity. When people feel insecure, their morale falls and their consumption dwindles. Hence, the

weak market. Everyone loses in the end. Think why more foreign firms are moving to Hong Kong than to our neighbouring competitors. They accept higher staff costs because of what Hong Kong offers - a fair and open system, a dynamic and flexible workforce, low and predictable taxation, and higher profits. The key to success lies in how you can re-tool and keep the best staff you have and continue to employ more people in the market, who will secure and develop the most profitable market niche for the firm.

11. I would also encourage companies, with the capabilities, to run short-term placement programmes for our young graduates and school leavers in the coming summer and to provide them with a taste of what work in real life means. This not only helps prepare our youngsters for responsible careers later on, but it also provides an opportunity to develop their work ethics.

12. All these measures, in my view, make long-term business sense. They will also send a strong message to the community that our companies embrace their social responsibility, and share a strong sense of partnership with the community.

13. Of course, it is not entirely up to business to make all the moves. Employees, unions and industrial organisations, welfare groups and community organisations, the Government - all of us have a role to play in ensuring that our people can find satisfying work, and in contributing towards an economically vibrant and socially stable community.

14. This social contract is becoming significantly more important in Hong Kong. That's because unemployment and retraining, the development of human capital, business and community co-operation are more than just economic matters. They are also political issues of significant importance on the Government's agenda. And they should be featuring on the business agenda of the CEOs of today.

15. This brings me to my second request, indeed it is a challenge as much as a request, and that is to encourage the business sector to participate actively in our political scene.

16. The public is demanding greater inclusion, transparency and openness in our political development and policy making. It is perfectly understandable and should be applauded as a sign of progress. In this

climate, business also needs to rethink how it handles such demands. The approach of business so far to politics has tended to be rather reactive, conservative and behind-the-scenes. But this could be counter productive. At the moment, society is divided over the pace and form of political development. An atmosphere of suspicion and distrust, unfortunately, still prevails. Meaningful debate is beginning to emerge - slowly - but it is still hampered by a tendency to dwell on past events and differences rather than search for solutions. We are trying to build a consensus across all sectors of society, and we cannot do that without the input of the business sector. So, now is the time for business to step up to the plate if it wants to help shape Hong Kong's future.

17. If business feels it should have a say in how the Government formulates and implements policy, then business needs to speak up - publicly, collectively and coherently. If business wants political parties to champion their cause, then business needs to engage the political parties and convince them why championing the cause of business is good for Hong Kong and its people. Businessmen need to shed their anxiety and fear that if and when they step into the political arena, it will give rise to a perception of a collusion of business and political interests. In open society, every sector is a legitimate player in politics. But to be a player you must do so in an open and public manner. To the Government, it is always important to maintain transparency and a level playing field for all.

18. At the moment, functional constituencies covering various business and commerce groups elect Legco members to represent their interests and reflect their views in our legislature. As you know the General Chamber of Commerce elects one member to LegCo. For the 2004 and 2008 Legco elections, functional constituencies will remain. As such, business, commerce and professional groups will maintain a direct line in the legislative process and in performing a "check and balance" function on the Government. But, as we head down the road to our ultimate goal of electing all Legco members by universal suffrage, then functional constituencies will have to evolve with this process.

19. The business community as a whole needs to start thinking about how it deals with this change. It must be prepared to get more involved. For example, business can do more to nurture and support political talent and parties. Business can do more to establish or support

research institutes or think-tanks that in turn would help to lift the quality of policy debate and deliberation in Hong Kong. Business can do more by speaking up on important issues that extend beyond their ambit of influence or interest, particularly if those issues have an impact on Hong Kong's competitiveness and attraction as a world city. Areas such as culture and heritage, conservation, education, recreation and sport, law and order, social welfare - the Government needs to hear your views, the public needs to hear your views, on how we can maintain Hong Kong's energy and vitality and viability, not just in the economic realm, but in the social and political realms as well. In my view, a more vocal, community-spirited and transparent business lobby would garner public trust, which in turn would help dispel any misconceptions about collusion, or a political "free lunch".

20. Furthermore, I believe that the business community should do more than just state its views and positions. The business community should become a more organised and disciplined aspect of our open political landscape. Business needs to take a more proactive approach in stating and explaining its legitimate causes while at the same time engaging the public by explaining how and why these causes will benefit the community.

21. While I make this appeal to the business community today, I must also stress that it is an appeal that applies equally to all other sectors in the community - to the grass roots organisations, to social and welfare groups and organisations, to the professions, to academics and students, to blue and white collar workers, to politicians and the political parties themselves.

22. As I have said many times over the past couple of months, there is considerable work ahead of us as we look for ways to improve the election methods in 2007 and 2008. You may have read in the papers about our second forum on constitutional development that was held on June 11. Like the first forum, the atmosphere was cordial and the views diverse. Like the first forum, there was a broad acknowledgement that our system needs to change, but a broad spectrum of views on how best we might achieve that goal. Like the first forum, representatives from various sectors took part, including the business sector. Soon, we will start holding focus groups with various sectors and groups of society to seek more views and input on the way forward and to look for common ground.

I look forward to the business sector playing an active part in this process. I am happy to say that the General Chamber of Commerce has been playing its part and has urged its members to provide input and constructive comment. We wholeheartedly welcome more of you to participate. I look forward to receiving your position papers on this.

23. The past two years have been fraught with not only economic problems but also serious challenges on the political front in Hong Kong. We have all become highly sensitive and perhaps exhausted by the continual political bickering and confrontation. In response, the Administration has worked hard, and is changing its style of governance. Short-comings remain and I know that we need to work even harder. We need to demonstrate by deeds and not words. But there are indeed words that our people want to hear from our political and business leaders. I can do no better than quoting from a 13th century humanist on what a community leader, including myself, should aim to achieve today: "Make me an instrument of the peace. Where there is hatred, let me sow love; where there is injury, pardon; where there is doubt, faith; where there is despair, hope; where there is darkness, light; where there is sadness, joy. Grant that I may not so much ask to be consoled as to console; to be understood as to understand, and to be loved as to love."

24. Thank you very much.