

Doing the right thing

INTERVIEW WITH DONALD TSANG

CHIEF EXECUTIVE OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION



DONALD TSANG began his civil service career in 1967, occupying various positions in finance and trade in the Hong Kong Civil Service, and was appointed Financial Secretary of Hong Kong in 1995, becoming the first ethnic Chinese to hold the position under British administration. He remained in that position after the transfer of the sovereignty of Hong Kong before being appointed Chief Secretary for Administration in 2001. He assumed the position of Chief Executive in 2005 and will remain in office until his second term expires on 30 June 2012.

Your forthcoming visit to the United Kingdom will almost certainly be your last as Chief Executive. What parting message will you be looking to send to business leaders, policy makers and investors?

I hope that the United Kingdom will look at Hong Kong as a very significant trading partner, particularly in the area of international finance. And I also want the UK to understand that Hong Kong has been politically stable and economically vibrant through some very troublesome periods over the last decade – indeed, the most recent of these is still not over – yet Hong Kong has continued to perform. The value system here is still the same, unchanged; it's a free society, with a strong sense of equity and fair play, and the institutional framework, including our independent judiciary, remains.

So, the story remains the same. But more importantly, over the last few years, particularly after the two financial crises we have been through, the partnership between Hong Kong and the UK should be strengthened, and there is a strong market demand that we should work together on a number of things, particularly on the regulatory side.

And so, this time around, I would like to tell all my British business friends that Hong Kong is alive and kicking, and I will of course be meeting the 'new' government, insofar as it's still new. I've met many of them personally before but I want to reinforce and cement those relationships.

How significant, in your view, is the relationship with the UK nearly fifteen years after the handover, and how do you see that relationship evolving?

It is important, of course. There has been a change in that it is far less political now and based far more on financial and economic ties. The growing importance of Hong Kong as an international financial centre also makes us value the partnership that we have with the City of London.

There are a lot of things we can learn from London, and there are a lot of things happening in Asia which we share with London, particularly as our market has become more global. Some of the challenges we face are very different, however. Our banking system is quite strong and robust, and when the global regulatory framework is discussed in international fora, particularly at the G20, where the Financial Stability Forum deliberations require input from different

levels, I think Hong Kong has a role to play. And I hope that my counterparts in the City of London and in Westminster would agree.

There is a general consensus among the G20 countries on the need for greater regulation of the financial sector, with Europe in particular in favour of stricter controls. Do you see a need for tighter regulation in Hong Kong, or will the SAR benefit from a 'lighter touch' regime?

Well I am sure there are areas in which there are common concerns. For instance, the area of over the counter trading; the question of banking liquidity sufficiency and so on, which has been a major concern which has caused ruptures in Europe and America. There's also the question of the role played by credit rating agencies, and the question of executive compensation – these form the common agenda which I wish to discuss.

Hong Kong has always followed the global trend. We want to be in the forefront of the regulatory regime, we do not want to participate in any 'race to the bottom' to gain any competitive commercial advantage in the short term, that's not the way we do things. Hong Kong will be a prestigious market; we will only let people come and participate in our market who are able to add prestige and to command the confidence of the investors generally. So our aims in this area are not dissimilar to those of New York or London, and we are facing similar challenges, but we seem to have come out of the crisis slightly better than these two cities in terms of our institutional strength.

One of the recent developments which clearly has implications for Hong Kong has been the reported incidences of Chinese companies listed in the US coming under scrutiny for their accounting practices. Is this something that concerns you?

I think that anyone participating in a global market should be able to stand up to global scrutiny, whether that scrutiny emanates from the United States, from Hong Kong or from anywhere else. I think these companies should stand up and fight and say that they are clean – and if they are not clean then they should be punished. This is the name of the game. At the same time, we need to recognise that China is a huge, emerging market with a very large number of

companies seeking to grow through the international markets. That's a learning process and something that I think should be welcomed. We should look at it in a positive light, not a negative light.

In the case of Hong Kong we want to make sure they're fairly treated as well, and that they have not been maliciously treated, because there are rumours in the market that some traders were short-selling these stocks before the bad news was announced, and that to us is very bad indeed. I don't know whether it's true or not but it's something that we'll need to look into. But as I said, any entity, whether it's Hong Kong-based or Russian-based or American-based, when entering into the international global market and asking for international investors, should be prepared for international scrutiny.

The British Government's response to the financial crisis has been characterised by an attempt to 'rebalance' the UK economy in order to reduce its dependence on financial services, yet you seem to advocating the opposite for Hong Kong. What do you know that they don't?

I think the comparison is a little unfair, if I may say so. You can't compare a city economy like Hong Kong with that of the whole of Britain, you have to compare Hong Kong to London or New York, then there's a fair play – and I don't see London getting out of financial services anytime soon!

The fact is that Hong Kong plays a role in East Asia and China similar to the one that London performs for Western Europe. So, we have a huge hinterland that we serve and we excel in certain things, like financial services. This is an area of services which none of our neighbouring cities are able to perform as well, for a number of subtle reasons to do with our own strengths, such as our independent judiciary, the transparency of our market, the quality of our prudential supervision, our freedom from corruption, our common law system and so on. For that reason, I think Hong Kong must continue to do the things which it does best, but do them even better, particularly in areas which are of particular importance to regional economic growth – and to that of China, which is our nation as well.

But in addition to supporting what we call our four pillar industries – trade, logistics, financial services and tourism – we are also exploring new industries where Hong Kong has a comparative advantage, such as testing and certification services, environmental industries, cultural and creative industries, medical services, educational services and innovation and technology, at which we also excel in the region. Ultimately, every country or region will have to find their own comparative advantage and we are realistic about our own strengths and weaknesses. So, we are

not advocating different things from the UK as such, we are simply doing what we consider to be our best.

Also, our experience of the latest crisis is quite different. Our banks are quite solid, none of them got into trouble, none of them have been experiencing the sort of problems that their counterparts had in the UK. So, the counter-measures undertaken by the Chancellor of the Exchequer in the UK and our Financial Secretary in Hong Kong should also be very different.

How would you assess the longer-term impact of the crisis on Hong Kong? Do you feel you've gained certain competitive advantage over some of your rivals as a result?

Without wishing to sound arrogant, I think we've come out of it pretty well.

I know my role and my mission in life, and as a relatively small city economy, it's inevitable that a place like Hong Kong would be impacted by a crisis of this sort. Our GDP is only a quarter of the size

We believe in the market, the market must lead but the government must be able to support it



Photography by Terry Duckham/AsiaPix

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of our trade volume, which is fairly peculiar, so we are extremely externally oriented. Almost anything happening anywhere, whether big or small, impacts on us very quickly, like the recent events in the Eurozone, for instance.

So for this reason we need to be competitive, and always on the alert. I'm always prepared for crisis, I'm never complacent, and for every crisis I know there are enormous opportunities hidden in it, so I try to discover and mobilise and marshal those opportunities. As a result of the Asian financial crisis we restructured our institutional framework, merged our stock market and streamlined our clearance and settlement procedures. On this occasion we have worked hard on other emerging markets and regions, such as Russia and South America.

So, I think we have done reasonably well and come out of it with our reputation enhanced, as demonstrated by the increasing trust in the Hong Kong market by international investors. But we need to grow the Asian market. We won't be able to match the breadth or depth of the London or New York markets until such time as the Asian economy becomes comparable to Western Europe or North and South America combined.

A lot of people are concerned about the latest economic news coming out China. How seriously will the relative slowdown in China's economic growth and the mainland government's focus on boosting domestic demand affect Hong Kong in the longer term?

Well, if you look at Asia as a whole, China is doing quite well; it has been posting double-digit growth for years but that cannot be sustainable in the longer term. The focus of growth has now shifted to domestic consumption, which is good and healthy, and I think some reduction in the growth rate is also healthier as well. But you must remember how much work we have put into the mainland market in China: we are the number one investor in the whole of China, in each and every province. So, the shifting of the economic priorities and agenda from an export-oriented mode to a domestic consumption mode will not do Hong Kong any harm at all. If I may say so, we should play to our strength from the investment we have put in there: in terms of industrial formation, in terms of commercial connectivity – we are in a very strong position to gain from this shift in priorities in the Mainland.

There will be a general reduction in terms of growth, but the growth is still quite phenomenal, I think we are talking in the next few years or so of China growing at the rate of 8-9 per cent, which is phenomenal by any standards. The cake will be so large and our share of it is quite stable, so we should do quite well.

You have often said you are not in favour of income re-distribution or greater taxation, yet you 'nationalised' the stock market in 1998, implemented one of the larger stimulus packages in the G20 in 2008 and last year introduced Hong Kong's first statutory minimum wage. Would you describe your political philosophy as 'socialism with Hong Kong characteristics'?

No, that's a very old-fashioned way of looking at it. I believe what any other responsible government must do. I have a firm belief in the operations of the market, but the markets sometimes do fail and in 1997 the market did some rather extraordinary things. Due to the relatively small size of our markets, we were open to manipulation, so we had to do something extraordinary at that time, to defend ourselves. But look at the way we did it: we went into the market, we got the shares, and then shortly afterwards I passed them back to the market because I dealt with an issue and that issue had been resolved. That reflected my belief in the market at the end of the day, so the market still trusts us in Hong Kong.

As for the minimum wage, we have been the odd man out for years and have been heavily criticised by all and sundry for not having one, but that is beside the point. We are facing a very serious issue in that we have a very comprehensive social security system which is non-contributory, and the people on social security are getting more and more, partly because the wage level has not come up with the sort of level which we would afford as an economy. And we have an in-flow of people coming from the mainland at the rate of 150 a day for family reunion purposes. These are people without skill or talents and they have very little bargaining power in the wage market. We have to make sure these people are at least paid a decent wage and will not fall into welfare. So for me, it's an important social policy and it has shown that the way we do it is quite sensible. We've followed what the UK has been doing and it has not undermined your productivity nor has it ended up with a high unemployment rate. So, so far so good.

What I'm saying is we do not want to intervene in the market unnecessarily; we believe in our market, our market must lead but the government must be able to support it, that's all. The stimulus package was successful, I think, but again it was a one-off exercise. We acted quickly, we acted robustly and as a result relatively few jobs were lost in Hong Kong and the impact on the economy was relatively minor. Had we done it a bit later or a bit less, I think the outcome would have been somewhat different.

So, I've no regrets about what we've done. But at the same time I believe we have to deal with it as we go along and for that reason we balance our budget. We make sure we have reasonable reserves, so we can deal with a crisis of this kind. Just look at what is happening in Europe and elsewhere, it all emanated from over-spending, so we have to be prudent.

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I cannot describe what we do as outright socialism, nor do I believe that we are simply laissez faire – I never trusted either of those things. I just believe in doing the sensible thing.

Before you began your second term in 2007 you promised to resolve the question of universal suffrage “totally, completely” before leaving office. With 12 months to go, what is your revised estimation of the timetable to achieve this?

During this government’s term of office we have secured a firm timetable for introducing universal suffrage: for the Chief Executive in 2017 and for the legislature in 2020 – that’s fixed. And then I have advanced the election system to make it far more democratic when I leave office in 2012. In other words, we are pushing forward. The matter has been resolved in the sense that we have a firm timetable, and in the meantime we should dedicate ourselves to deciding what form of universal suffrage we should deliver which will, on the one hand, be compared favourably with any other democracies in the world and at the same time deliver all the economic goodies of Hong Kong. That will be the real challenge, at the end of the day.

To paraphrase Enoch Powell: “All political lives end in failure.” What do you consider to be the most important achievements of your tenure, and are there any measures you wish you had introduced when you had the necessary political – and financial – capital to do so?

Well, I’ve delivered most of the things I promised in 2007 in my manifesto and in my promise to the people. I have been very fortunate to have been able to deliver on practically all of them. I’ve been watching that list all the time. In the meantime we have done a few other things which we had not promised before but which will become necessary as we go on, like the development of new industries in Hong Kong, and particularly in the face of the financial crisis we did some extraordinary things as well. But all those things were done not because I had any sudden surplus or deficit of political or financial capital. I think if there is something that needs to be done, it needs to be done. Even if it were in the last month of my term, if I need to do it then I will do it – particularly in this case because I am not running for election.

But this is not an autocracy; everything I do is subject to the scrutiny of the legislature, but I am reasonably happy that I have done my job. I hope by the time I leave office all the things I promised to deliver the Hong Kong people in 2007 will have been delivered. At the end of the day I just want to go out knowing that I’ve been an honest public servant. That would be good enough for me.

You spent much of your career in the British colonial Civil Service, were knighted by the Prince of Wales and reinstated Government House as the Chief Executive’s official residence – in fact, it might almost be argued that you, rather than Chris Patten, are ‘the last Governor’. Do you think the style of leadership will change significantly under the ‘next generation’ of post-handover politicians in Hong Kong? What advice would you give your successor?

Even when you look back at the colonial days, David Trench was very different from Alexander Grantham. Murray MacLehose was very different from his successor, Edward Youde. David Wilson brought a new dimension to the role and then you have Chris Patten, who was a different animal as well. All these people didn’t just stand still, they moved on and each brought their own distinct approach to the job. Since 1997 we have had Mr Tung, who was distinctly different from Patten and I am very different from Mr Tung – he doesn’t wear bow ties, for a start!

We all do different things and cope with different scenarios. Our relationship with the sovereign power is very different now – we do a lot more, we have a lot more autonomy in terms of economic and social policy, and political policy too. At the same time we have new challenges to meet. I certainly don’t see myself as part of the ‘old guard’, or the last Governor, as you put it. I’m really just a servant of the people, honestly. You have to have an enormous humility to be able to work in this place and I wouldn’t wish to impose my own views on my successor. Everyone has their own style, everyone is making their mark, and they will experience their own successes but will also experience their own failures.

There are some fundamental qualities, however. He – or she – must be someone who is able to trust the Hong Kong people – that is very important. And everything that they do they must be able to deliver with a good measure of humility.

You have said that you and your family will leave Hong Kong at the end of your term. What are your plans after June 30th 2012?

This is my home. But I will have to be away for a while to make sure that my media friends will not just badger me constantly about what I think of what my successor is doing, that’s all. And also I need a break! I have not had a decent holiday for a long time. I want to see the birds in Russia, I want to see the animals in Kenya, I want to see the autumn leaves in my own country. There are a lot of things I need to do.

This is where I was born, where my children and grandchildren are, so this is the place where I belong, at the end of the day. But I certainly want to get out of the limelight for a sustained period of time. When people have forgotten me, I’ll come back. F