

A tradition of trade

INTERVIEW WITH GREGORY SO

SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT, HONG KONG SAR



GREGORY SO holds a Master of Business Administration degree, a Bachelor of Laws degree and a Bachelor of Economics degree from universities in Canada. Before joining the Government in 2008, he had practised law for more than 20 years, initially in Canada and since 1989 in Hong Kong. He is a member and former vice-chairman of the Democratic Alliance for the Betterment and Progress of Hong Kong.

You assumed the position of Commerce Secretary with barely 12 months to go before the end of the current Administration. What are your priorities for the remainder of your term?

Right now the passing of the Competition Bill is one of the main priorities of the Bureau. We've been working on this Bill for quite some time now and having gone through two rounds of consultation and deliberation over the past few years. We introduced the Bill in July 2010 and now it is going through the Bills Committee, so we are looking forward to having it on the statute books before the end of the 2011-2012 legislative session. I think this Bill will do a lot to enhance our competitive environment here in Hong Kong, so that is undoubtedly one of my priority areas.

Every year the US-based Heritage Foundation declares Hong Kong to be the world's freest economy, yet there are certain areas where it might be argued that powerful business interests do wield undue influence, such as property development, retail and so on.

Well, it's still the freest, actually, and when the Bill is enacted it will further enhance the competitive spirit of Hong Kong. Under the Bill there are rules whereby we deal specifically with anti-competitive conduct, by way of agreement and concerted practices, very similar to the EU and the UK regimes.

In Chapter 2 of the UK Competition Act you have a section that deals with Abuse of Dominance. There is also a similar rule in our Bill which deals with undertakings abusing their substantial degree of market power. The Bill is progressing quite smoothly right now, so we are confident that it will be enacted before the end of the current term of the Administration.

Merchandise trade remains the single largest economic sector in Hong Kong, despite the rise of financial services and the fall in global trade. Is this sustainable? How do you see the longer-term trend?

In spite of the global financial tsunami we have picked up quite well in terms of the trade volume. In the past two decades merchandise trade in Hong Kong expanded almost four times in real terms, reaching about US\$823 billion in 2010 – that's around 370 per cent of our GDP. That figure in itself tells the story. In Hong Kong we have this unique advantage

of being the bridge between China and the rest of the world, and a lot of the Government's planning right now is aimed at enhancing Hong Kong's position in view of China's 12th Five-Year Plan, which positions Hong Kong as China's international finance centre for renminbi trading.

With the infrastructure we are building in the Pearl River Delta area, such as the new Hong Kong-Zhuhai-Macao Bridge as well as elsewhere in the mainland, Hong Kong is within reach of all the major regions. Imagine taking the fast rail and in the matter of nine to ten hours you will be in Beijing. So, Greater China is within reach of Hong Kong, the whole Pearl River Delta is well developed and we're trying a lot of pilot schemes in Guangdong, including the measures contained in CEPA (Hong Kong's Closer Economic Partnership Arrangement with the mainland) with a view to expanding that into the rest of China, opening up both service industries as well as trade in goods.

Are you concerned at all by the rise of Shenzhen, Shanghai and other mega ports eroding your market share?

China is so big, with such a vast population, that there is a lot of potential for development. Of course we are aware that we face competition in the region, but Hong Kong itself has an inherent attractiveness and we believe that in the long run, given the size of the Chinese economy, Hong Kong will be able to gain a significant share of the pie – and we are. When the mainland opened direct trading links with Taiwan, some people were concerned that it might have a negative impact on Hong Kong, but we have actually seen trade increase subsequently, due to the higher levels of economic activities generated. So, everyone stands to gain. Likewise, you have Shanghai and the Yangtze River delta area, and Hong Kong and the Pearl River delta area – we all have our own strategic place.

In Hong Kong, with the rule of law, free flow of information and capital, and a business-friendly environment – as well as the 'software' that comes from the strength of our service industries – we are very confident that we can match any of the other cities in the region. We have the distinct advantage of being a gateway to China and I think the sheer number of foreign companies using Hong Kong as their base for China and the region speaks volumes.

With increasing numbers of companies investing and opening offices in the mainland, do you feel there is still the potential to expand Hong Kong's role as a 'gateway'?

Very much so, in fact we are seeing increasing numbers of companies coming to Hong Kong to set up their regional headquarters, to boost their presence in the region. One of the great advantages of Hong Kong is that you can reach the vast population of the Pearl River Delta area within an hour's journey, and with China now focusing on the size of its domestic economy in terms of consumption that represents a huge potential for businessmen in Hong Kong. One of the roles of the Bureau is to assist and to work with the industry to develop brands in China. Because that's our strength: products and services from Hong Kong do very well in China, so brand building is very important. That's one of our major focuses in the short to medium term, to help the industry build up brands in the mainland market.

As a Special Administrative Region of China Hong Kong enjoys certain privileges that other Chinese cities don't, such as separate participation in international fora. How do you balance the need to project yourself internationally with China's wider international foreign policy goals?

Under the Basic Law (the SAR's 'mini-constitution'), Hong Kong enjoys a high degree of autonomy, so that makes us really unique. The 'One Country, Two Systems' concept works well, as proven in the past 14 years, and that defines our relationship with China. The fundamental strength and core values remain intact in Hong Kong and this is recognised, I think, by the international community. According to this principle, we retain the common law system and our capitalist way of life, and we continue to play an active role in the international arena. I myself have attended meetings, representing Hong Kong, at the WTO, in APEC and at Asian Development Bank meetings, for example, so Hong Kong will continue to have a very unique role to play in all this.

Do you feel that China is becoming more like Hong Kong rather than Hong Kong becoming more like China?

I think we have a lot in common, and as we co-operate in a lot of areas, such as broadcasting, where you have a limited bandwidth and must therefore work with neighbouring regions to ensure consistency, and trade, where we work very closely with our counterparts in various levels of the mainland government, you learn from each other. There are lots of things that we have learned from the mainland, that they do very well, and a lot of things that we do very well, so as we learn from

one another I think naturally we will become closer in some areas. At the same time, in Hong Kong we enjoy many attributes that are distinct from the rest of the nation, such as the free flow of information and capital, the lack of exchange controls, our distinct legal system with its common law background, and I think that is something that foreign visitors and investors will recognise as something that is quite unique to Hong Kong. As you walk around the city you see a real mix of Chinese culture as well as a Western culture, and I think that will continue to define us even as we become increasingly integrated with the mainland.

Last year Britain's Prime Minister, David Cameron and China's Premier, Wen Jiabao set the goal of doubling UK-China trade by 2015. What role can Hong Kong play in this process and what are the advantages for international traders of using the SAR as a hub rather than going direct?

Hong Kong possesses numerous advantages in this area, as I mentioned earlier. We are strategically located, that's one thing; we practise free trade, that's another; and we treat foreign companies on an equal footing. Even our CEPA arrangement is 'nationality neutral', which means that a foreign company can set up an operation in Hong Kong and enjoy the benefit of the free trade arrangement we have with the mainland economy. So, that is a powerful argument in Hong Kong's favour, coupled with all the comparative advantages that we talked about earlier.

In the past two decades merchandise trade in Hong Kong expanded almost four times in real terms, reaching US\$823 billion in 2010

Hong Kong's Cyberport



Photograph provided by Hong Kong Cyberport Management Company Ltd

When the mainland opened direct trading links with Taiwan, people were concerned that it might have a negative impact on Hong Kong, but we have actually seen trade increase

Hong Kong's Kwai Chung Container Terminal



Of course, as the region grows and develops economically, we will have to move up the value chain, which is why the Hong Kong government is moving away from reliance on the four traditional pillars of the economy – tourism, business and professional services, trading and logistics, and financial services – and expanding into six other key industries, three of which fall under the purview of this Bureau, namely: Innovation and Technology, Creative Industries and Testing and Certification. The latter generates quite a bit of excitement because quality control and authentication of quality are very important, demanded by consumers everywhere, and with the huge mainland market on our doorstep, the quality of testing and certification in Hong Kong is something that we think we have a lot of potential to develop in the future. And under the CEPA arrangement we have experienced a breakthrough in terms of accessing the Chinese market, so that's something that we will continue to develop.

What we are trying to do is to enhance the value of products and services by certifying them 'Made in China (or anywhere else in the world) but tested in Hong Kong.'

Talking of certification and standards, I think it is fair to say that on the mainland you don't always get what you think you are getting when you buy a product. Are you confident that sufficient measures exist to protect the intellectual property of companies based in Hong Kong that do business in China?

In the case of intellectual property, Hong Kong again would have an advantage because we really do enforce our intellectual property protection. So, companies can feel confident if they set up an operation here that their intellectual property will be protected, and then they can use Hong Kong as their base for future development in the region, including China.

The difficulty that many companies have faced in the past in dealing directly with mainland China is that it is not always easy to get these things enforced. Are you confident that there are adequate measures in place in this regard?

Again, I think that is another advantage of using Hong Kong as a gateway because our businessmen have been conducting business with their mainland counterparts for many, many years so these sorts of things are really the run of the mill issues that I think they would take care of. Using Hong Kong as a base would give you the advantage of tapping into the expertise and experience of Hong Kong businessmen in breaking into the Chinese market.

As growth continues to be sluggish in Europe and North America, Hong Kong is increasingly looking beyond its traditional economic partners towards the likes of Russia and Latin America. How successful has this diversification been to date?

We are stepping up our promotional efforts, in emerging markets including Russia, South America, India and the Middle East, particularly to attract companies with sizeable international operation to come to Hong Kong. For example, in August last year our Chief Executive, Donald Tsang visited Russia and reached out to a number of senior officials, as a result of which President Medvedev subsequently visited Hong Kong in April this year. Our Financial Secretary, John C Tsang also visited Russia to promote trade.

In South America, in Chile for example, we have a double taxation arrangement and also a Memorandum of Understanding on wine. We are extremely bullish on the prospects for the wine trade in Hong Kong, driven by the strong growth in mainland consumption. That's why we are providing facilitation with customs, helping people use Hong Kong to move their wine and store it here.

So to complement that, our testing and certification regime are the storage standards, so people will have confidence in storing their wine in Hong Kong.

Bilateral trade between Hong Kong and Latin America has been growing at an average annual rate of 10 per cent. The first five months of this year were even more impressive, with growth at 22 per cent.

I just came back from Liechtenstein three weeks ago, where we signed a free trade agreement with EFTA: Norway, Iceland, Switzerland and Liechtenstein. We are getting into more of these bilateral agreements now. We were latecomers to this process because we were strongly committed to the multi-lateral trading system in the past, but now that the Doha Round is unlikely to be concluded in the near future, we are increasingly interested in negotiating bilateral agreements with new trading partners around the world.