

Putting the tiger in China's tank

INTERVIEW WITH THE HON GREGORY SO, GBS, JP

SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT, GOVERNMENT OF THE HONG KONG SAR



GREGORY SO holds MBA, LLB and Bachelor of Economics degrees from Universities in Canada. Before joining the government of the Hong Kong SAR as Under Secretary of Commerce and Economic Development in 2008, he was a practicing solicitor 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. He was appointed Secretary for Commerce and Economic Development of the fourth term Government of the HKSAR on 28 June 2012.

The Chinese authorities have said that they see Britain as a second or third tier economic partner in Europe, behind the likes of France and Germany. What role can Hong Kong play to support Britain's efforts to increase trade and investment ties with the Mainland?

It is a key priority for Great Britain to increase trade with China, and what better way to do this than through Hong Kong, which has so many cultural, historic, social, and economic ties with Britain? Our way of doing business is very similar to Britain's, and we can act as a communicator between the British and the Mainland.

We are a major contributor to the Chinese economy through measures such as CEPA, the Mainland and Hong Kong Closer Economic Partnership Arrangement, which effectively opens up China to the UK through Hong Kong: the Chinese authorities have said they will provide whatever assistance Hong Kong requires, and we are prepared to facilitate whatever role the UK wants to carve out for itself.

We see British companies using Hong Kong as a springboard to break into the Chinese market of 1.3 billion consumers, whose purchasing power is increasing rapidly. Britain has a wealth of innovation and technology that could be further developed by refining or repackaging through Hong Kong into the Mainland market. Hong Kong is now the trading hub for intellectual property. By that I mean branding, technology and the creative industries, which are really the core strengths of the British economy. So the UK can use Hong Kong as a platform to enter the Mainland market, and at the same time it enables us to move up the value chain.

How do you go about fostering something as intangible as intellectual property?

I used to be a commercial lawyer, and one of the things I'm good at is making deals and helping people make deals. For intellectual property trading, the due diligence process can be quite tedious and sometimes uncertain. Most people don't know how to go about doing it. What I'm doing right now in the Commerce and Economic Development Bureau is to make the process much more transparent, easy to understand, and more conducive to getting financing. And for that we will need intellectual property valuation.

One of the key things a foreign company would find inhibiting in moving into the Mainland market is the enforcement of intellectual property rights. The best way forward for British companies is to use Hong Kong arbitration, Hong Kong law, which is based on the British system, along with our mediation, to help resolve any disputes, and to have this arbitration award enforced in Mainland China, saving them the agony of waiting for the judicial process to be completed. That's where Hong Kong's strength lies: in making transactions doable, making them simple, low-cost and in compliance as much as possible.

The evidence is in the numbers of start-up companies coming to Hong Kong from the UK, Europe, Israel, even Silicon Valley. Why? Because they look at the Asian market through the prism of Hong Kong. This is the perfect place to start up a company in Asia, which is why we have around 800 start-up companies here right now, and the number of co-work spaces has risen from three to 32 in just three years.

A recent report notes that while Hong Kong remains top in the ranking of 294 Chinese cities, it lacks the strength to accelerate and sustain growth. Are you concerned that you are losing competitiveness vis-à-vis your immediate neighbours and partners?

I have a very simple answer to that question. Which other commercial centres in Greater China enjoy the benefits of One Country, Two Systems? None. Hong Kong has its own system in terms of market orientation, the rule of law, and its own currency; I go to APEC meetings and WTO meetings as a separate customs territory – two systems – yet with the benefit of one country to tap into the mainstream of this growing engine of the world economy.

People talk of Hong Kong as the gateway to the Mainland, but I prefer to think of us as the spark plug in the engine of China – that special component that makes the whole thing work.

But isn't the Shanghai Free Trade Zone an attempt to replicate that function?

The Chinese economy is becoming more open, and is ready to compete. Not only is the Chinese economy expanding, it is opening up investment

opportunities elsewhere, and the Mainland has given us the mandate to use Hong Kong to invest overseas. I was in a meeting with European ambassadors and consuls in Hong Kong recently, and the major topic we discussed was how they can use Hong Kong to attract outward investment from the Mainland. So, I want to encourage the growth of other cities there so that we can move even higher up the value chain.

That said, the situation is complicated by the latest growth figures coming out of the Mainland, with credit rating agencies and banks downgrading their growth projections from 7.4 to 7.1 per cent this year. If China sneezes, is it not inevitable that Hong Kong will catch a cold?

I don't think we'll catch a cold. What's happening now is really part of the process when any economy grows; sometimes a segment of the economy will contract, sometimes it will expand. And we are always there.

If anything, adaptability is our strength. We'll always find a way to make the best of the situation. Hong Kong is constantly growing and moving where the value is, and right now, with the scarcity of land and labour in Hong Kong, services is where we're at, but we also take advantage of the abundance of labour and land across the border. So, adaptability is our strength.

The tourism sector, which also falls under your remit, has been facing challenges of late. What are your strategies for improving Hong Kong's competitiveness in this regard?

Our challenges in tourism are largely on the supply side, rather than the demand side. Last year we had 54 million visitors, 40 million of whom came from the Mainland. So it's a very different tourism mix from other countries.

In the past, we used the supply of hotel rooms as a kind of adjustment mechanism to manage the numbers of tourists coming in. But nowadays a lot of tourists are coming across the border on day trips – they don't stay overnight. So, we can no longer use the hotel room stock as a way of doing that. That's why we have been liaising with the Mainland authorities and seeing how we can restructure and rebalance this, while at the same time providing for the healthy growth of the industry. But right now the real constraint is our capacity, which is why we're increasing the number of hotel rooms in Hong Kong. We are also looking at the possibility of building new purpose-built malls in the boundary towns, so that Mainland visitors who just want to go shopping don't have to come all the way into the city centre. They can just shop and return to where they

come from. Lantau Island is also a largely untapped mass of land that we could use. So we have quite a number of innovative ideas to build up the sector in that area.

Hong Kong's reputation as the best place in the world to do business rests largely on three pillars: rule of law, light touch regulation, and flexible labour markets – all of which are perceived, in one way or another, to be under threat. What steps are the government taking to 'future-proof' and preserve the Hong Kong advantage?

I don't think that those three pillars are under threat. The rule of law is really our key strength. You only have to look at the number of lawsuits the government loses to third party litigation to see that we respect the rule of law! If anything, joining the government helped me realise that due process takes a long time – often to the detriment of policy implementation – but it is what makes us who we are.

What about the rise in the minimum wage? Does that not lead to a less flexible job market?

We want to protect the basic livelihoods of our labour force, and I think that's a positive thing. Our economy has to keep moving up the value chain so that we can sustain that kind of growth and sustain that level of living standard for people.

And the perceived rise in the level of regulation of business and financial markets?

I would say that Hong Kong follows international standards. Some in the business sector were sceptical of the introduction of the Competition Law – which, incidentally, is highlight of my political career. That legislation has now been passed, although it has not been fully implemented yet. I don't expect the fears of the business sector to be borne out in reality. I think they will see the benefits of competition that will allow a level playing field for all. Of course, as Secretary for Commerce and Economic Development, I am very much aware that we need to keep legislation and regulation to a minimum in order to allow business people to do what they do best.

Do you see any clouds on the horizon?

The biggest challenge is really how we think, and I would say the greatest wrong that we could do to our society is the intentional erosion of confidence. We have so much going on, so many positive things going for Hong Kong right now. But if we allow other people to dictate to us and cloud us with negative feelings, then we will never achieve our true potential. There is beauty and adventure in the commonplace for those who have eyes to see beyond. E

I like to think of Hong Kong as the spark plug in the engine of China – that special component that makes the whole thing work