

Press Release

LCQ5: Economic policy

Wednesday, December 17, 2008

Following is a question by the Hon Frederick Fung and a reply by the Acting Financial Secretary, Professor K C Chan, in the Legislative Council today (December 17):

Question :

In order to counter the impact of the financial tsunami, the governments of various countries have spent substantial amounts of public money and introduced many measures, including the injection of funds into banks and enterprises to rescue the banking system and stabilise the financial market. It has been alleged that such measures violate the free market principle. The former Chairman of the United States Federal Reserve Board conceded earlier that there were flaws in the previous faith in liberal economy which was based on the principle of minimal regulation and in the ideology which relied too much on the market. Moreover, the Premier of the State Council pointed out earlier that Hong Kong should earnestly learn a lesson from the financial crisis and identify the problems existing in its economic structure. In this connection, will the Government inform this Council whether:

(a) it will review its principle of governance of a deregulatory free market, and re-define the relationship between the Government and the market from a macro and strategic perspective for economic development, in order to respond to the new situation of the world's economy after the financial tsunami; if it will not, of the reasons for that; and

(b) it will re-assess if the current economic structure in Hong Kong has placed too much emphasis on the development of the financial services industry, and thus resulting in drawbacks (such as excessively uniform economic industries and severely imbalanced economic development, making it difficult to respond to the impact brought by the economic recession); and whether it will formulate afresh strategies for the comprehensive development of a diversified economy and introduce relevant supporting measures to tie in with such strategies; if it will not, of the reasons for that?

Reply :

President,

(a)Over the past few months the global economy is facing the most severe financial crisis since the Great Depression in the 1930s. The adoption of unprecedented measures to stabilise the markets by various governments, including those in the US and Europe, is certainly controversial. Yet, during the crisis time like this, these actions are understandable and indeed necessary.

There is now a consensus in the international community to review and reform the international financial system, with a view to avoiding another serious financial crisis in the future. As an international financial centre, Hong Kong will also review and further enhance our current regulatory mechanism. Nevertheless, we wish to point out that the international community remains positive about the market-based economic system. At the APEC Economic Leaders' Meeting held last month, all economic leaders agreed to complete the Doha round of WTO negotiation as soon as possible, so as to further facilitate market access and free trade, and to rein in the rising tide of protectionism.

In addition, the Government's long-adopted economic policy cannot be described, as Hon Fung did, as a policy of "deregulatory free market". In fact, the Government has been playing the triple role of market facilitator, services provider and regulator in the functioning of the economy. This can be seen from the different degrees of participation by the Government in areas such as education, housing, medical care, social security and environmental protection.

Over the past decades, the Government has been adopting the principle of "Big Market, Small Government". The objective is very clear. Whatever the markets can handle, we leave it to the markets. The role of the Government is to create the most favourable environment, so that the private enterprises can operate under a free, fair and reasonable environment, enabling them to develop fully their entrepreneurship, to promote economic growth, to facilitate economic restructuring, and to move up the value chain.

Clearly, free market is not omnipotent, and intervention is not necessarily an evil. If the market fails, the Government should intervene.

We also need government supervision and provision of various social services such as education, welfare, medical care, housing and public safety, so as to ensure social stability, a crucial condition for sustainable economic growth.

In sum, we should adopt a practical approach to respond to economic changes, and not be dictated by ideologies.

(b) The direction of Hong Kong's economic development is very clear. Focusing on the high value-added service industries remains our long-term strategy. As Hong Kong is already a mature economy, we could not compete on cost terms. Our competitive advantage relative to other cities lies with our sound market system and Hong Kong people's wealth of knowledge in various areas. To develop in accordance with one's competitive advantage is the golden rule for ensuring long-term economic development. In this regard, the Government needs to assume the important role of market facilitation. The Government has been exploring business opportunities through deepening the CEPA and strengthening the marketing efforts in the emerging economies. With the Government investing in human resources, building infrastructure, maintaining a sound legal system and providing an environment conducive to business, market forces are allowed to play out fully to direct resources to the most competitive and promising industries.

Over the past several decades, our economy has been continuously undergoing restructuring in response to new changes. By nature of our high degree of external orientation, the share of trading and logistics sector is as high as 27% of GDP. Professional and other producer services have also grown steadily over the past few years. Its share in the economy exceeds 10%. Other service industries such as tourism- and consumption-related services; transportation; communications; and personal and social services are also important sectors on their own. While the share of financial services has also risen rapidly over the past few years, its share in GDP is currently only about 16%. In terms of both absolute size and share in the economy, it is still behind that in New York and London.

Between 2000 and 2007, almost all major service industries have grown substantially. This signified the full-fledged upturn in the Hong

Kong economy, and that the growth driver was not solely confined to the financial sector.

At the same time, there has been continuous restructuring towards higher value-added activities within each broad sector. For example, global sourcing and distribution has become a bigger and bigger share of the activities of our trading sector. In the financial sector, the mix of financial services activities has also been shifting from traditional banking services such as deposit taking and trade financing, to higher value-added financial services such as asset management and offering financial solutions. That the Hong Kong economy has been undergoing restructuring towards high value-added activities is also evidenced from the notable growth in productivity, by an average of 3.7% per annum over the past seven years. The remarkable productivity growth in Hong Kong is actually better than many other economies at a similar stage of development.

In keeping with the overall strategy of moving up the value chain for service industries, we should also strive to achieve a more diversified economy through keeping an open mind for exploring new industries. In this connection, the promotion of R&D activities and development of creative industries is an important strategy. In this year's Budget, we have put aside HK\$18 billion for setting up a Research and Endowment Fund, and another HK\$300 million per year to provide 800 additional publicly funded places for postgraduate research programmes in phases from the 2009-10 school year

In sum, the Government will strive to promote the development of the Hong Kong economy towards high value-added activities, and will strengthen further the economic integration with the Mainland under the framework of CEPA, in response to the intense competition under the globalisation trend.

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