Speech by FS at business luncheon in Los Angeles

October 5, 2016

Following is the speech by the Financial Secretary, Mr John C Tsang, at a business luncheon in Los Angeles, the United States, today (October 5, Los Angeles time):

Denton (President of the Hong Kong Association of Southern California, Mr Denton Mak), Jason (Vice President of Hong Kong Schools Alumni Federation, Mr Jason Chan), distinguished guests, ladies and gentlemen,

Good afternoon.

I flew in from Hong Kong late last night. I didn't get much sleep and it is now about 4am in the morning in Hong Kong, I am not sure whether I should be tired or not, but regardless of my physical condition, I am pleased to be here with you all today in the City of Angels. Delighted, as well, to be here for a taste of the playoff season.

American style. Yes, the Dodgers will open their playoffs series on Friday. Also up this weekend is game two in a best of three series of the Presidential Debates in St Louis.

I am looking forward to both of these exciting encounters.

Los Angeles, I should add, is the first stop of my eight-day,coast-to-coast tour of the United States, before I go to Peru and then the Netherlands. I am here, of course, to talk about business. About the massive business opportunities in Hong Kong.

And about how we can work together to seize these opportunities.

Thankfully, Hong Kong and the US have long been deeply connected in business and trade, culture and education, not to mention a shared passion for California wine, along with the Beach Boys and its mainstay Brian Wilson, now on his "Pet Sounds" 50th anniversary world tour.

By the way, the Hong Kong TDC (Trade Development Council), one of the co-organisers of today's luncheon, was also launched half a century ago: October 1, 1966, to be precise. Of course, its creation had nothing to do with surfing music, but as you well know, the TDC's creation, then as now, is to promote Hong Kong's excellent platform and network in trade, commerce, finance and more.

Today, Hong Kong is the world's eighth largest trading entity, with total goods and services trade equivalent to more than four times our GDP. And the US is Hong Kong's second-largest trading partner.

As for Hong Kong, we are your ninth-largest export market.

In 2015, Hong Kong bought US$37 billion worth of goods made right here in America. Products of every kind, from telecommunications equipment to fashion and jewellery, works of art and antiques to a cornucopia of agricultural products. Meat, in particular.

Last year, Hong Kong was the US' fifth-largest market for beef and veal products. Just imagine the amount of meat that a population of just seven million people would have to consume to achieve this status.

Some 1,400 US companies are operating in Hong Kong, while nearly 90,000 people of US nationality call Hong Kong home. So it shouldn't surprise anyone here when I tell you that the American Chamber of Commerce in Hong Kong is the largest international chamber in our city, and one of the largest business chambers outside the US.

In fact, it is not just the Americans.

Companies and capital from around the world are happy and flourishing in Hong Kong.

According to a UN report, Hong Kong was, in fact, the world's second-largest recipient of foreign direct investment in 2015, right after the US. FDI inflows to Hong Kong amounted to US$175 billion in 2015, a year-on-year surge of 53.5 per cent.

That shows the confidence international investors and enterprises have in us, in Hong Kong. We have worked hard to earn it.

Last month, Hong Kong topped the annual Economic Freedom of the World Report published by the Cato Institute and the Vancouver-based Fraser Institute.

Hong Kong has done so, by the way, every year since the report first came out back in 1996.

In May, Hong Kong was also ranked the most competitive economy in the world by the International Institute for Management Development in Switzerland.

And earlier this year, the Washington-based Heritage Foundation did the same - naming Hong Kong the freest economy in the world - for 22 years in a row.

Such international plaudits, year after year, speak of the free flow of capital and information, in and out of Hong Kong. They speak, too, of our rule of law buttressed by an independent judiciary, our efficient market, our extensive logistics network, as well as our ruthlessness in combating corruption.

What's more, Hong Kong is well-regarded as one of the safest cities in the world in which to live and to work. Our crime rate, especially when it comes to violent crime, is low.

Reassuringly so.

We are a global business hub that flies the flag of free trade. Our business playing field is absolutely-level for all companies, wherever they come from, whatever they do. Providing, of course, what they do is legal.

Then there's our low and uncomplicated tax system, with profits tax capped at a cheering 16.5 per cent.

Salaries tax at 15 per cent. We have no capital gains tax. No inheritance tax.

No VAT or sales tax. Even beer and wine are tax free.

So, yes, as you can see, there are plenty of inviting advantages in Hong Kong. And there are plenty of good reasons to look to Hong Kong for doing business.

I know, however, a number of observers out there, including a few international credit rating agencies, have been suggesting that the slowdown of China's economy will create strong spillover effects and add further downward pressure to the global economy that is already weak.

And because of the close ties between Hong Kong and China, Hong Kong too, will soon have to face the sobering consequences of the Mainland's economic slowdown.

I do not see it that way. Economies around the world have been facing substantial headwinds in recent years, in fact since 2008, and China cannot be an exception in this issue. And the slower growth rate of China's economy is not unexpected and not unreasonable, after the double-digit spurt that it enjoyed in the past 30 years or so.

It is now the second largest economy in the world, and it cannot continue to grow at that pace.

While China's economy has been growing at a slower rate, it is still the major driving force of the global economy that is contributing over a quarter of the world's current economic growth.

More to the point, the Mainland's growth target for this year - between 6.5 and 7 per cent - is the kind of economic nightmare that we would all love to wake up to. At least to most of the finance ministers that I know. In fact, they would be delighted to achieve just half of that rate.

So, yes, China - the world's second-largest economy, the world's largest trading economy, and the world's largest manufacturer - remains a formidable force for growth.

And it will continue to be so in this 21st century.

One reason for my optimism is the continuing structural change going on in the Mainland - both the supply-side structural reform and, with it, the rising change in demand.

Increasing purchasing power, along with the expanding income of a growing middle class, is transforming the Mainland's economic engine. Long an investment, export-led economy, the Mainland has now shifted, gradually and perceptibly, towards a consumption-driven economy. That's an important aspect that we need to recognise.

Indeed, consumption expenditure is now the Mainland's largest growth driver, accounting for more than 70 per cent of its economic growth in the first half of this year.

As the Mainland's economy becomes more services-led, the demand for high-end producer services is also growing.

This is creating major opportunities for services providers around the world. And no one is better positioned to take advantage of this transformation than the businesses in Hong Kong.

After all, Hong Kong has played a critical role in the Mainland's dramatic economic rise since it first began to open up, in the late 1970s. Our competitive advantages in trade and logistics, together with our cultural connections, made us the key entrepÃˆÂ • t for the Mainland in its emergence as an export economy and global manufacturer.

We have also been the Mainland's essential intermediary in channelling foreign investment and capital to fuel its extraordinary growth.

Hong Kong has become our country's international financial and professional services centre.

Hong Kong is the world's leading offshore Renminbi business hub. We have the largest offshore Renminbi liquidity pool, counting some 750 billion Yuan at the end of July. And, in the first half of this year, some 70 per cent of the world's Renminbi payment transactions were processed in Hong Kong.

And just a couple of days ago on the 1st of October, the Renminbi became the fifth currency in the basket of the International Monetary Fund's Special Drawing Rights, the SDR, meaning that the Renminbi is sure to play a more central role in transactions around the world down the currency road.

No less important, the Renminbi's IMF inclusion - along with the US dollar, the Japanese yen, the euro and the British pound sterling - is a milestone in the Chinese economy's integration into the global financial system.

It is also a resounding opportunity for Hong Kong's Renminbi business.

Our deepening economic integration with the Mainland, of course, goes well beyond our dominant role in the Renminbi's internationalisation. Next month, the Shanghai-Hong Kong Stock Connect turns two years old. And the Shenzhen-Hong Kong Stock Connect is expected to be launched very soon as well.

Together, they will serve to enhance mutual market access between the capital markets of

Hong Kong and the Mainland.

They will also accelerate the opening-up of the Mainland's capital markets to the world, while boosting the Renminbi's global acceptance.

There's more: the Mainland-Hong Kong mutual recognition of funds arrangement, now just over a year old, is finding good market response.

More than China's international financial capital, Hong Kong is also a global financial centre.

That unparalleled ability to serve as the critical intermediary between the Mainland and the rest of the world continues to create enormous opportunities for Hong Kong.

I can tell you that opportunities don't get much bigger and more visionary than China's Belt and Road Initiative. The far-reaching scheme seeks to deepen economic ties and infrastructure connectivity between some 65 countries in Asia, Europe and Africa, in the form of railways, highways, ports, power plants, dams and more.

The two corridors of the Belt and Road Initiative encompass two thirds of our planet's population and account for a third of global GDP. The Belt and Road may well be the defining multilateral undertaking of this 21st century.

According to an Asian Development Bank survey, Asia requires US$800 billion every year just to cover infrastructure investment needs from now to the year 2020.

China has endorsed Hong Kong's involvement in the Belt and Road Initiative.

The country counts on Hong Kong - on our financial, trade and logistics strengths, as well as our prowess in professional services - to play an important role in the ambitious undertaking.

As I see it, Hong Kong is on its way to becoming the Belt-Road's vital investment and financial-services hub. And Hong Kong can certainly work with American capital, enterprises, investors and professionals in exploring and seizing these exciting opportunities ahead.

My colleagues at TDC and our Economic and Trade Offices here in the US stand ready to help you learn more about the massive potential of the Belt and Road Initiative, as well as what Hong Kong can offer you in realising its massive potential.

My thanks again to TDC, the Hong Kong Schools Alumni Federation and the Hong Kong Association of Southern California for giving me this welcome opportunity to see you all today. I can now go bask in the beautiful weather that you have on offer.

Thank you.