

Speech by FS at Lion Rock Institute Freedom Dinner

November 14, 2016

Following is the keynote speech by the Financial Secretary, Mr John C Tsang, at the Lion Rock Institute Freedom Dinner this evening (November 14):

Nicholas (Chairman of the Lion Rock Institute, Mr Nicholas Sallnow-Smith), Andrew (Co-founder of the Lion Rock Institute, Mr Andrew Shuen), distinguished guests, ladies and gentlemen,

Good evening.

I am pleased to join you all, once again, at the Lion Rock Institute's Annual Gala Dinner, to spend an evening with fellow true believers who cherish free-market values with a passion normally displayed only by hard-core fans of Manchester United.

Even tonight's menu somehow underlines that commitment to freedom. The slow-roasted beef tenderloin must have been extracted from cows that were free to range day and night munching on grass, and free to sleep wherever and whenever they wanted to. As for the pan-fried codfish, I am sure only the free and wild kind has been selected for us free-marketers' consumption.

We would surely expect nothing less from the Lion Rock Institute. As for me, the dinner tonight is also free.

Putting aside all those fine "free" elements, I am, indeed, pleased to attend once again this annual ritual, perhaps the only ceremony in Hong Kong, this very cathedral of freedom, that openly honours the power of the free market, reaffirms the benefits of free trade, as well as celebrates the beauty of economic freedom.

The free market principle has always been the fundamental ingredient of Hong Kong's continued prosperity, the cornerstone of our sustained achievement, and the bedrock of our own brand of economic achievement as an international commercial, trade and financial centre.

I have spoken on different occasions in the past on how the different components of the free market principle have contributed to our success as the poster boy for those values that we so cherish. I think we are all familiar already with all these points, and I shall not repeat them tonight.

But I would, however, if you would humour me, brag a bit, as I have done previously, about our credentials and stunning track record of Hong Kong.

With the greatest humility, I must honestly say that our track record has been pretty good. The annual Economic Freedom of the World report published by the Cato Institute and the Vancouver-based Fraser Institute in mid-September this year has once again placed Hong Kong at the top. We have done that every single year since the report first came out back in 1996.

And earlier this year, the Washington-based Heritage Foundation has also named Hong Kong once again the world's freest economy in their annual Index of Economic Freedom guide.

They have done that for the past 22 years in a row.

And among other accolades accorded Hong Kong by prestigious international institutions, I am particularly pleased that we regained in June this year the title of the most competitive economy in the world, according to the 2016 World Competitiveness Yearbook released by the International Institute for Management Development.

Upon receipt of these welcome acclaims, we don't show any extraordinary emotion or excitement, like running victory laps or tapping out exotic dance steps. We would issue the usual press statement, one that is plain, straightforward, informative and totally bureaucratic. Nothing more, nothing less.

Perhaps our upbringing in a society that teaches us to be humble and subtle has a great deal to do with this behaviour, but we do take great pride in these honours, and we are grateful to these esteemed organisations for recognising our underlying strengths and giving us a thumbs up for our stubborn insistence. These are all nice and pleasant, but more importantly, these reaffirmations have enabled us to stay the course in plotting our programmes for the future, and in continuing to employ the values of free trade and the free market in shaping the economic policy of Hong Kong.

That cannot be said for our world today. Indeed, in the past few years, free-market values have been taking the blame for many wrongs in the world, and these values have been put under immense pressure, particularly in the advanced developed economies of the West.

Protectionist noises, on the other hand, have been getting louder, spreading dissonance and sowing discord in many parts of the world.

Britain's referendum in June in favour of Brexit, as well as the result of the US presidential election that came through last week were perhaps the clearest indications that sentiments against the open market and free trade are fast rising, fiercely refuting the achievements of many decades of increasing globalisation.

Picking up on this gathering storm, the Economist recently argued that the new divide among rich countries is no longer between left and right, or liberal and conservative, but between open and closed. In an editorial asking rhetorically who would uphold the torch of openness in the West, the paper lamented the world's "depressing company of wall-builders, door-slamers and drawbridge-raisers".

It wasn't so long ago that globalisation was that unstoppable force that was quickly reshaping the world. And all of us here this evening know well that the liberalisation of trade, investment and immigration policies, together with the freer flow of goods, capital and people, have served to raise production efficiency, creating an increasingly connected global market that optimises on each economy's unique strengths.

As for the benefits of globalisation, well, they seem pretty clear to me.

Advanced economies get to enjoy lower costs of consumption and greater access to new export markets, while developing economies get to enjoy quality growth and employment, and at the same time, they are able to integrate quickly into the world trading system and join the ranks of the global middle class.

Over the past 20 years, global trade in goods and services has tripled in volume. China has been a major beneficiary. The Mainland of China's per capita GDP increased 13 times over those two decades.

Its rural population, generally poor in nature, fell by more than a stunning 100 million between 2010 and 2015. And that telling progress has also been visible in other emerging economies, such as India, Indonesia and Vietnam.

No doubt, globalisation has helped bring millions of people out of extreme poverty, and helped improve the quality of life of many more around the world. And I believe that no other single movement or market trend in modern history carries the same powerful effect and successful impact as globalisation.

Despite these achievements, today's persistently weak global economy continues to batter free trade, eroding its primacy and its international reputation.

Globalisation drives efficiency gains by inducing companies and individuals to specialise according to their relative strengths and comparative advantages.

Those better equipped with knowledge and skills benefit more in this new economy, while those who are less mobile, less adaptive to global competition, can face painful dislocation. And this is evident from the fact that the unemployment rate has been higher for lower-skilled labour across many advanced economies.

Increasingly, and perhaps understandably, people and economies are turning to isolationism and protectionism as the political rallying call to revive economic growth and create jobs resonates into a crescendo.

Protectionism, unfortunately, would only dampen growth, wiping out the gains earned through more efficient allocation of resources among economies. Protectionist measures, in the form of trade barriers and tariffs on specific goods, also increase the costs of imports, thereby raising the cost of living for everyone.

Globalisation, to be sure, is not omnipotent.

While it propels economic growth, it brings with it distributional problems. The key question, however, is not about open or close economies. Rather, it is about whether governments can pursue policies that promote more inclusive growth, sharing the fruits of globalisation among economies, as well as across different segments within individual economies.

Hong Kong vividly exemplifies the widespread rewards that can be realised in our open embrace of globalisation.

With very little in the way of natural resources, Hong Kong has long relied on our extensive global business ties in driving our economy forward.

Our trade is more than four times our GDP, making us the world's most open economy and the eighth-largest trading entity. Without free trade, it is highly unlikely that we would have emerged as an advanced economy and an international financial centre.

That said, we are fully aware of the need to help those in our community who lack the necessary skills and resources to cash in on the benefits of globalisation. That means, among other things, improving the competitiveness of our workforce to better adapt to the new global economy and its ever-changing needs.

And I believe education is the most powerful tool that can help us achieve that noble goal.

Education is the engine for transforming society and in driving the economy forward. Education instils knowledge in individuals, and knowledge, in turn, becomes the source of creativity, the spark for inspiration, the fuel for innovation. The collective ingenuity of individuals is the source of power that helps create a better world for everyone.

More importantly, I believe education is the equaliser that accords everyone, rich or poor, the same opportunity to excel, that optimises everyone's potential, and that gives members of the younger generation a fair chance to succeed.

Through education, we are seeking to create a fair and level playing field for everyone in our community.

This is the reason why we are doing our utmost to provide the best possible education to our future generations, from primary schools to tertiary research institutes, in order to ensure that we have an abundant supply of competitive and knowledgeable talents that can drive us forward, that can help us maintain our edge as a major international metropolitan city and a competitive economy in this era of globalisation.

Indeed, education has been the single largest recurrent spending area in my annual Budget. Our education expenditure this year, by the way, is some 70 per cent higher than it was a decade ago, while the student population, you may not be aware of this, in primary and secondary

schools for the corresponding period has dropped 20 to 30 per cent.

We are making a difference. The proportion of Hong Kong's workforce with tertiary education has increased from 29 per cent in 2005 to 38 per cent last year.

That is a big leap in terms of quality of our people, and in terms of our ability to cope with a fast changing world.

In order for the new generations of young people to better themselves and their families, and to further improve the conditions of our society, we need to work relentlessly in safeguarding and maintaining Hong Kong's many long-standing strengths, from our open and globalised market environment, our rule of law and independent judiciary, our transparent regulatory regime and our level playing field for all to our community-wide distaste against corruption.

These institutional strengths also give our businesses the resilience, and give our businesses the confidence, to tackle the global economy's many ups and downs.

While we are working hard to maintain a free market where every business, every individual, can realise their fullest potential, governments also have an important facilitator role to open up new markets, remove market impediments and enhance trade and investment.

Ladies and gentlemen, globalisation creates endless opportunities for economies, for companies, for communities, and for individuals. It propels growth and development, improves the livelihood of millions and reduces poverty.

No economy, large or small, should raise its drawbridge or slam its door. By reaping the benefits of globalisation, Hong Kong has managed to refrain from protectionism, and remain true to free-market principles.

This has been our formula for success, and we must not be tempted to change course. I certainly would not attempt to change a formula that has worked so well because if I were to do so, I do not think that I would be invited to this free dinner again. So until the next time, if there is a next time, thank you very much and have a great evening.

Thank you.