



HONG KONG UPDATE

1998 Policy Address Supplement

October 1998

From Adversity to Opportunity

Following is the transcript of a message on TV and radio by the Chief Executive, Mr Tung Chee Hwa, on his Policy Address:

The past year has been to say the least, a trying year for Hong Kong. As the Asian financial crisis swept through the region, our economy came under tremendous strain. Unfortunate incidents in the health care and environmental hygiene sectors and the difficulties which marred the opening of the new airport dealt a blow to Hong Kong's reputation overseas and dented our citizens' confidence. I am determined that the Special Administrative Region Government should be more vigilant and seek to improve its performance so that it can lead Hong Kong effectively in coping with future challenges.

The delivery of this year's Policy Address coincides with a time of great challenge and difficulty for Hong Kong. We predict that Hong Kong's economy will shrink by 4% this year. Our unemployment rate, which has already reached 5%, will continue to rise. This difficult economic situation will continue through 1999.

I understand that what concerns the community most is the economy. The Government has put forward a number of measures aimed at easing pressure on the public and creating the conditions necessary for economic revival. These included substantial tax cut, rate rebate and the setting up of a fund to assist small and medi-

um-sized enterprises. These measures, together with the freezing of rent and other charges by the Housing Authority, the Housing Society and the two railway corporations, came to a total value of HK\$20 billion (C\$4 billion). In addition, we have earmarked HK\$235 billion (C\$47 billion) on infrastructure projects within five years. I believe we shall see the positive impact of these measures on our economy towards the end of 1998 and in 1999.

In order to restore order to our financial markets, our financial and monetary authorities announced last month a series of measures. I would like to make it clear that the Government is committed to maintaining our status as an international financial centre. The linked exchange rate will remain, and we will strictly enforce the provisions of the Basic Law that no foreign exchange control shall be applied in Hong Kong.

There is great concern in the community for the problems faced by the unemployed. I share that concern, and the Government will do its utmost to improve the prospects of all our citizens who are looking for work. I hope that the unemployed will not become discouraged and that they will make the best use of the training opportunities which the Government and other organizations provide to equip themselves with new skills. During

A note from Donald Tong

Director of Hong Kong Economic & Trade Office

The Chief Executive of the Hong Kong Special Administrative Region Government, Mr Tung Chee Hwa, delivered his Policy Address (equivalent to Canada's Throne Speech) on October 7. In his Policy Address, Mr Tung gave an account of the events in the past 12 months affecting Hong Kong and our responses; and set out his future plans and programs to spur economic growth, to anchor Hong Kong's fundamentals, and to improve the quality of life.

Mr Tung reiterated the Government's firm commitments to maintaining Hong Kong's status as an international financial centre and to upholding the US-HK dollar peg. We will continue to bolster the established pillars of our economy, i.e. the financial services sector, small and medium enterprises, tourism, and import and export. We will also continue to capitalize on the opportunities resulting from China's sustained economic growth. We will stimulate Hong Kong's economic development by improving our competitiveness in the field of information technology, telecommunications, entertainment and Chinese medicine, through the application of innovation and technology. Our C\$47 billion infrastructure projects will proceed as scheduled for completion by 2002. A Council of International Advisers has also been established to reinforce our links with the international community and to give advice on strategic issues pertinent to long-term development of Hong Kong.

We recognize that 1999 will remain a year of great challenge and difficulty for Hong Kong. But with a stable currency, sound economic fundamentals, excellent banking and financial systems, increasingly close ties with and support from China, and a hardworking and resilient community, we remain confident that we will be able to ride out the turmoil and turn crises into opportunities. We appreciate the support people in Canada have given to Hong Kong in the past and hope to receive Canada's continued support in the years to come. ♦

this period of adversity, employers are constrained by thinner margins, whilst employees have to face the prospect of pay adjustments or redundancy. I urge employers and employees to work together, to build up mutual understanding so as to help tide them over these difficult times.

The sharp fall in property prices in the private housing sector in the past year has led to a decrease in asset values, hit public confidence which in turn

reduced consumer spending. If this trend continues, it could put pressure on the banking system. I therefore believe that it is now necessary and desirable for property prices to stabilize. In the public housing sector, the Government is determined to work towards achieving our policy of providing public rental housing to the needy and to facilitate home ownership for those who wish to buy their own homes.

The Government will do all it can to bolster the established pillars of our economy such as the financial services sector, small and medium enterprises, tourism and import and export. We will also capitalize on the opportunities as a result of China's sustained economic growth. Through the application of innovation and technology, we will stimulate Hong Kong's economic development by improving our competitiveness in the field of information technology, telecommunications, entertainment and Chinese medicine.

To take Hong Kong forward in an increasingly competitive world, we must give education top priority. We need also to take care of Hong Kong's elderly, who have contributed much to our success over the years. We will also do our best to improve the quality of life in Hong Kong. We shall be satisfied with nothing less than a world class environment.

The recovery of Hong Kong's economy hinges on four factors: an improvement in the external economic environment, a steadying of interest rates, stability in the property market and the restoration of public confidence. I am optimistic that the measures recently introduced by the Hong Kong Monetary Authority will help to steady interest rates. I believe the measures I announced in this Address on housing will help stabilize property prices. As far as the external environment is concerned, although we cannot control global trends, the signs are that US interest rates are on a downward trend and the US currency is softening. Some global hedge funds are also facing financial difficulties. These developments will have a positive effect on the stability of our financial market.

The most critical factor now is our own confidence. Undeniably, Hong Kong faces many problems. But we must not lose confidence because of the short-term problems we now face. Rather, we should recognize that Hong Kong still enjoys a position which is the envy of many. Our society is free, fair and stable. We have no foreign debt. We have sufficient reserves. Our banking system is sound. The successful implementation of the One Country Two Systems concept has provided us with a solid foundation for stability and growth. Above all, Hong Kong people remain resourceful, hardworking and dynamic. I firmly believe that as long as we retain our confidence and remain resilient, we will be able to turn crises into opportunities and together overcome the adversity that we now face. ♦

(The full-text of the 1998 Policy Address can be retrieved from the Hong Kong Economic & Trade Office's homepage at www.hketo.ca.)

Technology is CE's tip for prosperity.

Hong Kong is to encourage the development of high technology to boost its economy and create a more diverse economic base.

The Chief Executive, Mr Tung Chee Hwa, said in his Policy Address: "Innovation and technology are important drivers of economic growth. In a knowledge-based global economy, they are essential in adding value, increasing productivity and enhancing our overall competitiveness. The world's most outstanding success stories in recent years have mostly involved the application of innovation and technology." ♦

Economic Highlights

In his Policy Address, Mr TUNG Chee Hwa set out the plans and programmes the Government will implement to spur economic growth. The following are some of the key points.

Strategies for Growth

- ◆ Strengthen government support for innovation and technological development by setting up an Applied Science and Technology Research Institute.
- ◆ Set up a HK\$5 billion (C\$1 billion) Innovation and Technology Fund to provide finance for projects which will contribute to the improved use of innovation and technology in our industrial and commercial sectors.
- ◆ Position Hong Kong as an Internet hub for the Asia Pacific region to help Hong Kong, Mainland and overseas businesses to produce, distribute and market their goods more effectively both within the region and beyond.
- ◆ Establish an on-line Government Electronic Services Delivery Scheme to allow 24-hour access to government services and information.
- ◆ Develop a world class teleport at Chung Hom Kok to provide the best possible global satellite links.
- ◆ Set up a HK\$100 million (C\$20 million) Film Development Fund to promote creativity and the use of technology in local film production.
- ◆ Take forward proposals aimed at establishing Hong Kong as the international centre for Chinese medicine, including the setting up of an Institute for Chinese Medicine.

Building on Our Strengths

- ◆ Enhance Hong Kong's role as an international financial services centre by strengthening regulatory systems and developing new products, such as a Venture Board for the trade of shares in smaller and emerging companies.
- ◆ Draw up plans for a new state-of-the-art performance venue in Kowloon to boost Hong Kong's status as Asia's entertainment and events capital.
- ◆ Establish a Heritage Tourism Task Force to promote our heritage sites and develop opportunities for joint tourism promotions with the Mainland.
- ◆ Appoint a Commissioner for Tourism whose role will be to help stimulate further growth in the tourism industry.
- ◆ Open a Small and Medium Enterprises Office in the Industry Department to co-ordinate services and assistance for smaller businesses.
- ◆ Build three major railways: the West Rail Phase I, the MTR Tseung Kwan O extension and the Ma On Shan Railway, at a cost of HK\$110 billion (C\$22 billion).
- ◆ Improve cross-boundary traffic by building a KCR spur line from Sheung Shui to Lok Ma Chau for completion in 2004.
- ◆ Expand Hong Kong's network of highways by building Route 16 connecting Sha Tin and West Kowloon and Route 10 between North Lantau and Yuen Long, and plan for the Central Kowloon Route and Route 7 between Kennedy Town and Aberdeen. ♦