



**“Hong Kong: The Path to 2047”
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The spoken word takes precedence

QUOTE: Excellencies, Members of the Chambers, Ladies and Gentlemen,

Mr Chairman, thank you for your kind invitation and introduction. As a fellow Austrian and founder of the original Hong Kong-Austrian Association, let me congratulate you on the good work you and your colleagues are doing for bilateral relations and for the further development of economic links between the HKSAR and Europe. With China as the second-largest trading partner of the European Union since earlier this year, and with trade and investment volumes growing steadily, there is a lot to do. I keep repeating the message to all I meet: do not underestimate Hong Kong and the business advantages it can bring, even when the primary focus for individual enterprises is now on the mainland of China. China is changing roles also: from importer of capital and management talent, to capital exporter. Hong Kong has become a two-way corridor. Of course Hong Kong will have to fight to stay ahead; and how this could be done is partially the subject of my remarks today.

In 1997, a truly monumental task was accomplished. Prior to that date, there were a lot of doubters. For the success of the handover credit has to be given to the planners and the implementers, but also to the positive and cooperative spirit which has prevailed among the populations on both sides of the border. Hong Kong Chinese by and large are patriotic, and increasingly proud of the achievements of the mainland, and of China's growing stature in the world. And indeed, one cannot be but impressed.

Underlying my remarks today is the premise that China's economic success of recent decades will continue. The second principal premise is that after 2047 there will be no border between Hong Kong and the mainland.

The Central Government has been scrupulous in observing the terms of the Joint Declaration, contrary to the fears of some pronounced pessimists. In fact it has done more than was originally committed.

Beijing has supported Hong Kong economically when needed: through liberalising tourism, a free trade agreement, by making concessions on the financial front. Many state-owned enterprises conduct their IPOs in Hong Kong, or transact their international business through Hong Kong. Beijing has to-date studiously respected Hong Kong's autonomy.

National security legislation has been put on the back-burner. The Central Government has been found willing to be flexible also on other political issues. To



some observers progress may appear slow but is nevertheless significant. Foreign affairs and defence matters are handled with due respect to the sensitivities of Hong Kong and its population. And they come free to the Hong Kong taxpayer. Headway is also being made regarding the mutual recognition of professional qualifications. Hong Kong and its officials have behaved predictably by orienting themselves towards the new centre of power. But vis-a-vis the Hong Kong population they may not have been sufficiently open or convincing about the need for such a pragmatic approach. The result has been some public dissatisfaction, especially among local political activists, old and new, although some of them now seem to be slowly coming around to accepting political reality as well.

The Hong Kong Government is accused of being too timid in its decision-making. It is sometimes hard to tell whether this is because of a lack of experience or because of a lack of courage. Probably a mixture of both. The Hong Kong Government is meant to be in charge of a city and is not really geared up to shoulder responsibilities for a region or a quasi-national territory. A degree of charity in judging its performance might therefore not come amiss. On the other hand, the slogan 'Asia's world city' reflects lofty aspirations and also quite a bit of pretence. Expectations raised and then not fulfilled lead to criticism every time, and we are not different from other places. People around the world seek leaders today, not procrastinators, to overcome current difficulties and uncertain outlooks. As a result, the political centre parties are having a hard time also in the Western democracies.

By contrast, there is a degree of public admiration evident about the way the Chinese Government tackles problems on the home front. There remain quite a few. In my view, one of the most important challenges on the mainland is the needed change in mindset as regards corruption, the so-called "crime without victims". This change will likely not be achieved without more transparency and accountability, and without greater official tolerance of publicly expressed dissatisfaction with unfair or unequal treatment of citizens. Perhaps this was the message that Premier Wen Jiabao was trying to convey through his remarks in recent weeks.

We all do better when we are kept on our toes. The Hong Kong Government should view public criticism as constructive engagement and listen, or at least pretend to be listening. Improvements in governance, in both style and substance, may well be the result. We might then return to the attitude which has made Hong Kong so extraordinarily successful. In my view, there is currently too much moaning going on, quite a bit of begging for favours, and a resting on laurels. Other municipalities and Provinces in China do not have it easy either but their inhabitants often exhibit a fighting spirit reminiscent of Hong Kong in the 1960s and '70s. Our younger generation in particular should be mindful of that fact. I am totally in favour of being respectful of history and its monuments. But to go on prolonged demonstrations over a dilapidated roof on four pillars near the old seashore did strike me as a bit of a misguided effort.

As time goes on the competition for Hong Kong can only get tougher: not only from Shanghai, but also from Beijing, Tianjin, Chengdu, Chongjing, Ningbo, Wuhan, Guangzhou, or Taipei. Perhaps even from Xiamen. Here again I am assuming that the rapprochement with Taiwan will continue to strengthen.



Hong Kong is not doing too badly but we can only slide if we let things drift. Thirty-seven years and the likely full incorporation of Hong Kong into the fabric of the motherland does not leave all that much time for thinking, planning, and execution. Fundamentals by definition take a bit longer to germinate and be put in place, be they infrastructure, education, or changes in social behaviour. Some of you may remember how quickly time passed between 1984 and 1997 because everyone stayed focussed on essentials in the required planning process. Can we do it again? Where do we want to be in 2047? And what, specifically, will Hong Kong at that time be able to offer the rest of China?

I would suggest we remember that with some 8 or 9 million inhabitants Hong Kong will not even be a really major urban centre in the country. We already face some of the urban ills: pollution in the air, on land, and in the sea around us; traffic jams; noise levels. But localised environmental hazards pose no insuperable problems that concentrated engineering, money, and time cannot solve. Especially since in Hong Kong we no longer have any industry to speak of. Shipping in the harbour is starting to do its part in cutting emissions. Bus companies need to do the same.

By attempting to focus strongly on local municipal concerns, rather than on national or international ones, we might have better government in Hong Kong. As an administration it could be smaller and more closely networked, spawning fruitful debate and possibly greater political unity in addressing the communal day-to-day issues. We all know that the current structure is lopsided; we also know it can only be changed through action in Beijing. But with the end of "one country, two systems", the Basic Law will need fundamental revisions in any event. So why not start thinking about what that would mean, at all levels and in all directions? And in the process get the current political actors engaged and motivated enough to work a shade more closely together than they have managed to do up to now.

Because working together constructively is a must during the next 37 years and the decades following. Of course some of us are unlikely to be around. As I said, the younger people have to ask themselves questions. Has anybody on either side of the border started thinking seriously of how two completely different legal systems and the associated social norms can be aligned? Or should we simply assume that national laws and regulations will replace the common law in Hong Kong, and with it the judicial traditions that go with it? What would be a workable alternative? Similar questions arise with taxation. How can Hong Kong expect to retain a different fiscal system? Or asking in reverse: how many current residents of Hong Kong, both individual and corporate, will stay if the current low-tax regime was to change? What will that do to Hong Kong's economic outlook? I have no doubt on the other hand that commercial interests that depend on government licences, like banks, airlines, or the Jockey Club in Hong Kong, will work out continuation arrangements well in advance of 2047.

Economically, where will we place Hong Kong in the national context once the internal border is gone? For example, could or should Hong Kong strive to become a headquarters base for regional or international organisations? Or for global think tanks and professional certification agencies, or for commercial lobby groups (like New York, Geneva, or Paris and Vienna have done)? What specific additional



infrastructure is required to attract the likes of United Nations agencies, or new development banks, global regulators, or international NGOs? What is Singapore doing in that context? Hong Kong has successful institutions of regional prominence already, for example in the legal sector: see the HK International Arbitration Centre, or the Human Rights programme at the Faculty of Law of Hong Kong University. Which others could we profitably add? And why should only Singapore be capable of educating mainland officials, as reported recently in the media, and not Hong Kong?

Perhaps we should be more modest and be satisfied with being the 'villa suburb' of the large urban agglomeration that will include Guangzhou and Shenzhen – a sort of mix of Florida, Phuket, and Oxford? We can already count on mild weather, a long seashore, country parks, good hotels and medical services, and some luxurious housing. Diversified entertainment options are already in place or are in the planning stage. By the way, while I am pleased that a large tract of prime land in Kowloon West is made available for cultural pursuits, I would have preferred a development of such size to be on a fully competitive basis and not follow the 'brutalism' of the City of London Barbican model. Going forward we should actually ask ourselves what, as a community, we mean by 'culture' instead of just answering public surveys about the ideal number of theatre venues or the design of the waterfront promenade. Like in other Chinese cities there is a tendency in Hong Kong to favour monuments, be it buildings, bridges, or motorways. This is however not a contest which we are ever likely to win against the other towns on the mainland.

We should concentrate on strengthening what is often called 'soft power': the attempt to continue in those areas of excellence where we have traditions and a strong record already, like professionalism, first-class service, global awareness, interconnectedness, tolerance, fairness, respect for law, and personal safety. I strongly believe that differentiation in quality is the key to long-term success of a city like Hong Kong in a country the size of China – not the volume of tourists and the nature of their shopping habits.

Strengthening education efforts and nurturing artists would add to the mystique of comfort and of local sophistication which we need to protect. Some observers already see Shanghai ahead in this connection. Absent future borders, instead of exit permits and visas the market and its pricing will become the selector for admission to the Hong Kong paradise.

It will run against intuition, but excellence in education might also be more readily achievable and maintained if central strangleholds (via government funding arrangements or other allocation controls) were to be replaced by more competition among individual institutions. A start is being made. The question however remains: with the fading over time of Western teaching traditions, will Hong Kong be able to retain an aura of difference especially as regards secondary and tertiary education? And: should the community perhaps opt for providing exceptional secondary education, and/or arts education, rather than rely on a broadly-based university curriculum that is matched by thousands of others around the country from amongst which future generations of Hong Kong youngsters can and will be able to choose?



I also have another radical suggestion: the Hong Kong Government should set a date by which the simplified Chinese characters of the mainland will be introduced in Hong Kong. This might be easier to be put through than any effort to move to right-side vehicular traffic. We need to groom teachers.

Hong Kong has no natural resources other than its topography. Topography helped historic Hong Kong in the development of its harbour. Its geographic position in Asia has also assisted the development variously as a transport, ship repair, and communications hub. Diligence and existential pressures for the population created higher productivity. But in a globalising world, manpower is no longer a territorial asset but a moveable one, and the reliance on human inventiveness and ingenuity is now mainly a question of money and environmental factors. Good talent increasingly sells itself globally to the highest bidder. And undoubtedly, year-by-year Hong Kong will have a much larger percentage of mainland Chinese citizens amongst its residents. Incidentally, with border restrictions eliminated in 2047, how will the Hong Kong and Central Governments deal with the potential explosion in people movement? And what about the future of foreign workers in Hong Kong?

Demographics, in particular the ageing of populations, has become a popular topic of discussion now also in Asia. Hong Kong is no exception since we have one of the region's lowest birth rates. Welfare system improvements are prominently on the agenda, be it pension arrangements or medical insurance, longer working periods, or the adequacy of health care. As is seen in other places, birthrates reflect the level of material wealth in a given society, and China will be no exception. I would be surprised if the "one-child" policy was still in force by 2047. If it is not, this would mean a dilemma less for Hong Kong. In a small city like ours, we should turn the large ageing population on the mainland into a business prospect by offering a full range of medical treatment and caring facilities. Certain other countries in Asia already have a head-start. As mentioned, Hong Kong has a core of specialised medical expertise in place; it can additionally offer potential clients the advantages of proximity and language.

One of the more valuable natural resources of the future all over the world will be fresh water. The current import of water from Guangdong can only become more expensive. I am no geologist and may be totally off beam: but should Hong Kong not try to become at least self-sufficient through the construction of new reservoirs, combined with a consistent public education programme aimed at reducing local consumption? Substantial new reservoirs were fortunately built in Hong Kong in the 20th century. Water conservation and new supplies could bring more economic benefits over the longer term and make for better local sustainable development than the subsidization of wind farms, the construction of motorways to Macao, or of additional rail links to Guangdong. We should also strive to reduce waste production, one of the highest in the region.

One of my other assumptions is that the Renminbi will not just internationalise but become a fully convertible and global reserve currency within the foreseeable future, likely well before 2047. For China as a major trading nation, currency pressures are building up that even successive conservative central governments will not be able to deflect. Dr John Greenwood, the father of the successful Hong Kong peg to the US



dollar, in a recent speech at Hong Kong University summed up the conditions necessary for convertibility and the possible pegging of the HK dollar to the RMB. He thought that the Basic Law entitled Hong Kong to keep its own currency until 2047. But I believe full RMB convertibility would seal the coffin of the Hong Kong dollar, and financial businesses now relying mostly on the niches provided by the current situation will have to plan on changes. The Basic Law can of course be amended, and Beijing will agree to do so if the end-result is to clearly help Hong Kong's adjustment.

For 15 years, the Heritage Foundation in the United States has named Hong Kong 'the freest economy' in the world, despite – or perhaps because of – limited consumer protection and the absence of effective anti-competition laws and democratic government of the Western brand. Perhaps the choice was easy when compared with practices on the mainland. Hong Kong's strong anti-corruption practices, its independent judiciary, and the adherence to contractual obligations clearly were other decisive factors. And they do remain very important.

On the mainland, commercial habits are moving slowly but inexorably towards the Hong Kong model. We can only hope that by 2047, at the very latest, the differences become minor and the equalisation of the "two systems" almost complete. Otherwise the shock of adjustment that some people were expecting in 1997 will have to be dealt with in 2047. Unless of course current arrangements are prolonged and the status quo is preserved, which is unlikely. Significantly a suggestion I made before 1997 that a new British lease should be negotiated following the agreed handover, to allow more time for adaptation, was regarded as a fairly quaint idea in Beijing.

Are we on track for 2047? Probably not. We indulge. We rely on the mainland. We think it is too early to plan. Things are not really within our control.... So much can change in almost four decades that any speculation is premature.... And so on. It is always easy to find excuses to defer hard decisions.

Local visions are presently concentrated on how to prevent asset bubbles, save energy, reduce pollution, and build stronger financial-services and trading systems with links to the mainland. All these are important items of course, but not perhaps as strategic in importance as the disappearance of the SAR and the SEZ borders. On my personal concern list when looking at 2047 are the adaptation of the legal system and where exactly to find Hong Kong's long-term competitive advantage within the larger nation. I am sure all of you have other worries you can add.

Apologies that I have left so many unanswered questions in my speech. But thank you for listening. **UNQUOTE**



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