

The Economic Club of New York

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The Honorable Tung Chee-hwa  
First Chief Executive of Hong Kong

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Questioners: Winthrop H. Smith, Jr.  
Chairman, Merrill Lynch International

Dennis Weatherstone  
Retired Chairman, J. P. Morgan & Co.

## Introduction

Chairman William J. McDonough

Welcome to the 353<sup>rd</sup> meeting of the Economic Club of New York in this, our 90<sup>th</sup> year. The relationship between the United States of America and China has for several centuries been a very important one. In the next century it will almost certainly be our single most important bilateral relationship.

In the last 30 years that relationship has shown much change – change that has become ever more interesting and perhaps even dramatic as we came close to the terribly important day of the first of July, 1997 when Hong Kong would be returned to what all the people of China thought its rightful owners, the people of China.

Twenty years ago, there was a breakthrough in the relationship between the United States and China and the author of that breakthrough from the American side was President Richard Nixon. We are particularly happy this evening that we have his lovely daughter, Tricia, and her husband Ed Cox, and their son with us.

All of us who know China and Hong Kong reasonably well, we all have our memories – I went to Hong Kong, first as a young naval officer, to Mainland China for the first time in 1975 – all thought that one of the great moments would be when Hong Kong returned. But a terribly

important decision had to be made by the leadership of the People's Republic with the approval of the people of Hong Kong. And that was the choice of the first Chief Executive of a Hong Kong once again part of China.

Those of us who have known our speaker this evening all thought he's the perfect candidate, will they pick him? And I think all of us kept our mouths very shut in the hope that we could just make it less possible if everybody knew how many people around the world thought that the perfect candidate for the first Chief Executive of Hong Kong was a man who knows his own island very well, his own country, China, very well, but our country and the rest of the Western world equally well. The perfect candidate to be the Chief Executive of Hong Kong, ladies and gentlemen, join me in welcoming the Honorable Tung Chee-hwa. (Applause)

The Honorable Tung Chee-hwa

First Chief Executive of Hong Kong

Thank you very much, Bill, for those very kind words. Coming to New York is like coming home. My wife and I, my wife is sitting over there, we raised our family in New York. We were here for eight very, very happy years. It is really like coming home. The traffic jam is as bad as ever. (Laughter) And I tell you, in Hong Kong, our taxi drivers speak English. (Laughter and Applause) Early on this year when I was here, I said I'd like to go to the World Trade Center. The fellow looked at me and said, "How do you get there?" But truly this is a wonderful city, and

I am very glad to be back here.

I was saying at dinner to Bill that although I left the United States, because of my business I come back to visit the United States very frequently in the past. I was saying to him that if the 80s were the time for self-doubt, for concern, a time for feeling America is lost; the end of the 20<sup>th</sup> century, beginning of the 21<sup>st</sup> century must be a period of renaissance for the United States of America. Your economy is competitive. It's growing without inflation. Your budget deficit is being sorted out. Social welfare is being properly organized. All the best talent around the world is flocking to the United States to live, to work. You really have some of the best creative talents now in the world working and living here. And I think America is moving forward. America has a very definite purpose moving forward into the 21<sup>st</sup> century, and congratulate you.

It is a great honor to have been invited to dinner with you this evening. New York is the epitome of America, and the Economic Club is the very apogee of New York. It is a pleasure for me to be back in America, renewing friendships with people and places that I know well. But I'm not just here for a free dinner. I'm in America because of the honor and the responsibility that is mine as the first Chief Executive of Hong Kong Special Administrative Region of China.

Hong Kong and America are close associates in trade and investment. Last year you were our second largest trade partner. With only 6.3 million people, less than the population of New York, we were your 11<sup>th</sup> largest export market and you run the trade surplus with us. You have put

almost 14 billion U.S. dollars in direct investment into Hong Kong, being you're third largest in the Asia-Pacific region, after Japan and Australia. Incidentally, we have just bought your \_\_\_\_\_.

(Laughter)

Over the last few years, Hong Kong has often been heralded as the Manhattan of China or the New York of Asia. People have said that just as New York was the gateway to America, as the heart pumping out the life blood of capital of your economic growth, so Hong Kong can serve a similar role. That's a rather flattering compliment for Hong Kong, but I'll accept it, even though modestly. I also want to make clear that what we are aiming to achieve is that Hong Kong should stay Hong Kong and not become New York. Our taxi drivers will speak English and Chinese.

(Laughter)

What do I mean by that? Hong Kong has flourished as a free port, a free market, a free society under the rule of law. Those are things we value and we intend to keep them. Hong Kong has welcomed people from around the world including some 30,000 Americans, 120,000 Filipinos, 30,000 Japanese and Koreans. We will go on providing a welcome to the world to join us in our business and our society, but over 95% of our population is Chinese. We are a Chinese city, and we will go on being that too.

For the Chinese people, remembering the last 150 years of our experience with Colonialism, the 1<sup>st</sup> of July, 1997 was a very special moment, one to remember with a sense of pride and dignity

restored. That natural sense of national regard is just one of the reasons why we in Hong Kong have reacted to the unification with China with far more optimism than the polls suggest have been felt by the people here in the United States. I would like to highlight some of our reasons of confidence and to outline what we are going to be doing over the next few years to make sure that the promises made to Hong Kong and our potential as a city will become a reality.

July 1 has come and gone. We, who live and work in Hong Kong, continue to work hard for an even more successful and prosperous future. The three branches of our political structure – executive, legislative and judiciary – have all been functioning normally. There has been no change in our lifestyle. Before July 1, there were 40 demonstrations every month. Since then, there are still about 40 demonstrations every month. (Laughter) There are more funny cartoons about me, unflattering cartoons about me, than at any time I've ever seen of the previous governors. And our economy actually continues to grow. Indeed, recent surveys have shown that 78% of Hong Kong people express confidence of Hong Kong's future.

Such optimism is based fundamentally on the commitment of China, our sovereign power. The Chinese leadership is fully committed in making "one country-two systems" a successful reality. They have complete faith in the ability of Hong Kong people administering Hong Kong. I can testify to this commitment with my experience over the last nine months. The central government is fully adhering to Basic Law and given us an entirely free hand to deal with our own affairs. They have demonstrated flexibility, understanding, cooperation, and

accommodation.

There are those who are skeptical about the future of Hong Kong. They have fundamental doubts that China will allow the full implementation of “one country-two systems” as promised under the Basic Law. I believe this is totally misguided. Clearly, it is in China’s basic national interest to ensure the successful implementation of “one country-two systems.” The reason is simple. If Hong Kong succeeds in our effort, we can contribute towards the continued modernization of China. In addition, the feasibility of different social, economic, and political systems within one country is being tested. Success in Hong Kong can serve as a significant step towards the greater and final objective of the reunification of the entire nation.

What else am I confident in Hong Kong’s future? China has undergone dramatic changes since she opened up to the outside world in 1978. The economy has grown at a remarkable rate, averaging close to 10% per annum. This is a tribute to the vitality and energy of Chinese people and the quality of China’s leadership. These leaders have the ability and acumen to steer China successfully into the 21<sup>st</sup> century. It is this ability and acumen that will ensure the successful implementation of the “one country-two system” concept as we move forward into the future.

Since the first of July, we in Hong Kong have been administering our own affairs. We are also carrying on with the development of democracy in Hong Kong. Our Constitution, the Basic Law, requires us to develop democratic institution. Our commitment as a society is to do the same.

The Basic Law has given us a ten-year timetable for the election both for the Chief Executive and for the Legislature. I was chosen by a committee of 400 Hong Kong residents drawn from all walks of life. My successor will be chosen in 2002 by a similarly widely drawn body increased in size to 800.

Legislation is now being debated in Hong Kong for the election to our first full Legislature which will be held in May next year. Every adult permanent resident will have a vote. Every party is welcome to contest the seats. Those elected will serve for two years, before a second Legislature elected for a four-year term in year of 2000. With the third Legislature election in 2004, the number of directly elected seats will increase from the one-third we have next year to one-half of the total. After 2007, according to the Basic Law, Hong Kong people would decide when to introduce election by universal suffrage, for electing both the Chief Executive and the Legislature.

There is an interesting coincidence, that the timetable in the Basic Law covers a period as long as that between your 1776 Articles of Confederation and the 1787 Constitution. Our circumstances, of course, are different. The Basic Law has already set out for us an independent executive, legislative, and judiciary, together with the relationship between them, and we intend to steadily expand the franchise.

I know that there is criticism that the electoral arrangement for next year will reduce the

franchise in some of what we call functional constituencies. This misses the point, that these functional constituencies, in their very original design, were indirect elections to represent economic, professional, and grass roots sectors of importance to the community of Hong Kong, and were not intended to be elections through universal suffrage. Indeed, they are interim arrangements under the Basic Law designed to maintain the balance and continuity while our democratic process continues to evolve over the next ten years.

May I just point out to you what the landscape looks like on our side of the fence. For the first time in our history we, the people of Hong Kong, have the responsibility for our own affairs. Only in the last few years of Colonial rule did we get opportunity to have election of any kind to the Legislature. But certainly for the Chief Executive, we had no voice whatsoever. Even then the political debate was dominated by the relationship with our Colonial rulers and the relationship between Britain and China.

Now at last we are starting to look at things for ourselves and in terms of our own society and circumstances. We have a constitutional framework to live together as we discuss these matters. As Chief Executive, I am sworn to uphold that Constitution and I will. My point is that the Basic Law provides us a progressive framework for all of us in Hong Kong to work within together. We are not turning back the clock, not standing still, not shutting people out. We are setting out, like you, to find our own basis for strength and stability in the organization of our government.

I don't doubt there will be arguments along the way. You always get these arguments as far as Constitutions are concerned. And here I quote, "A triple-head monster, as steep and wicked a conspiracy as was ever invented in the darkest ages against the liberties of free people." This was not a comment of a Hong Kong politician, but from Representative John Lansing of New York describing your new Constitution in 1787. (Laughter) He lost the argument with Hamilton and Madison.

People can argue until the cows come home whether the pace of democratization in Hong Kong is too slow or too fast. I believe we have struck the right balance. Of course, as far as constitutional issues are concerned, there will always be debates in Hong Kong, in America, or anywhere else. And I think these debates are healthy. Is a period of ten years too long for this evolutionary process – a process that is critical to Hong Kong's future – a process, the success or failure which we in Hong Kong and no one else would bear the full consequences? I appreciate that this is an issue of concern in the United States. However, let me emphasize this point. At the end of the day, we must move forward in what we, the people of Hong Kong, think is in the best long-term interest of Hong Kong. And I believe you would expect me to do no less. In the meantime, we certainly have widely consulted the community and believe that we have the support of the community as a whole.

As everyone knows, I am a Conservative. But as Emerson said, everyone is a Conservative after dinner. So I know I'm among friends here tonight. (Laughter) And I know that you understand,

like me, that conservatism, wanting to sustain things that you know and value, doesn't mean trying to stand still or turn the clock back. Sustaining of wonderfully complex and exciting community like Hong Kong requires constant judicious movement and adjustment. I'm bound by conviction and my oath to uphold the Basic Law. I will assert and support key values and principles. I know that they require weight and acceptance by a free and open debate.

Thanks to the solid foundation Hong Kong has in its civil service and fundamentally in the rule of law, we are well placed to develop our role in a dynamic world. The efficiency and productivity of Hong Kong's civil service is respected by our community and by those who come to do business with us. Time and again, I am complimented as to their qualities. Their enthusiasm and their commitment to making Hong Kong an even better place in the next century is a valuable asset. The rule of law underpins our free market, the work of our civil service, and the quality of our community.

We will maintain our legal system, grounded like yours, in the common law. The rule of law has kept our society open, fair, and law-abiding. We will maintain effective enforcement of the law especially against corruption and we'll maintain the principle that no one, Chief Executive included, is above the law. Additionally, we will resolutely maintain our conservative and prudent fiscal management style, low and predictable tax structure, as well as a level playing field for all. We will continue to encourage the contribution of foreign community and maintain the characteristics of a leading international city.

Alongside all specific reasons, my confidence in Hong Kong's future is grounded in the spirit of the people of Hong Kong. What we have achieved within our lifetime is staggering. What we still hope to achieve together is no less ambitious. Our experienced entrepreneurs and investors and the high proportion of our children now going to technical colleges and universities give us the talent and the drive to keep on succeeding in whatever the world holds out for us.

On the 8<sup>th</sup> of October, I will be giving my first policy speech, our equivalent of your State of the Union Address, although on a very, very tiny scale. I will be setting out a program to tackle a wide range of matters truly close to the heart of Hong Kong people. Hong Kong has reason to be proud of its achievement over the past 30 years, but we have to be alert to the challenges which lie ahead. We face keen competition in trade and services, and our competitiveness is threatened by inflation. We have to resolve a series of social problems arising from a growing and aging population, the demand for more and better housing, deal with employment dislocation due to restructuring of our economy, and address the needs of the poor and the deprived. We will improve our competitiveness of the business environment and provide a well-educated, well-trained workforce that can take advantage of tomorrow's opportunities.

As the world moves rapidly into an information era, we will be investing heavily in our information infrastructure and our expertise in this field. We will speed up land formation, extending our mass transit railway systems, and other infrastructure, and increase the pace of home construction to 85,000 units a year in order to achieve a home ownership rate of 70% in

the next ten years. We are setting up provident fund and extending care for the elderly in order that older members of our community are provided with a treasured sense of security, belonging, and worthiness. We are confident we will achieve these and many other goals.

Ladies and gentlemen, during the recent upsets and turmoil in Southeast Asia financial markets, you saw how solid our financial position and fiscal management is. The Wall Street Journal pointed out the key things. It isn't just a matter of Hong Kong having large reserves, though I confess that at over 80 billion U.S. dollars, these do give us a comfortable feeling. (Laughter) That is important. But what matters equally is our record of prudent fiscal management and the quality of our regulation.

A decade ago, Hong Kong learned its lesson the hard way when we saw our stock market halved in value almost overnight. We learned that proper response to market pressures is to regulate properly, not to retreat behind barriers. The risks of open market can only be managed by making the market operate as transparently and as efficiently as possible, by maintaining financial discipline in the public sector, and by setting prudent limits to institutional exposure to risks.

Our fundamentals are strong. We expect GDP growth this year of around 5.5%. Inflation continues to decline a bit slowly. Next year our new airport opens greatly improving our quality as an aviation and service hub. And we are following it up with another massive program of rail and other infrastructure developments to further improve our efficiency and productivity.

We are also taking steps to improve our financial regulation and strengthen our markets so that we can extend our position as a leading provider of financial services in the years ahead. The opening of our mortgage corporation this year and the start of our Mandatory Provident Fund schemes next year will add substantial new resources to our financial industry. Already we are the second largest stock market in Asia by capitalization and the fifth largest center for banking and foreign exchange transactions in the world. U.S.-owned banks and financial institutions alone are managing over \$100 billion in loans, debts, and assets in Hong Kong. I look forward to seeing that figure increase steadily as we expand our role in providing financial and investment services to the development that is going on across East Asia.

The events in Southeast Asia financial and stock markets over the last few weeks have been a setback for many hopes in the region, but I am sure this is temporary. The countries are rich in resources. They are developing their education systems. They are developing their economic and financial management structure. Inter-regional trade is growing and the significance of these economies to the rest of the world will continue to grow. The fact that China will become a major economic power in the next century needs no reminder, and Hong Kong will certainly be at the hub of all those activities.

But we should remember that most Asian economies have now achieved the level of prosperity, liberty, and human dignity that few would have dared to dream a generation before. These

successes were brought about by the vision and dedication of the leaders, the hard work and sacrifice of the people. They were also made possible by the open trade practices of the West, particularly the United States, that has allowed free flow of capital goods and information.

Indeed, Asia has come a long way. The region, including Japan, China, Korea, Taiwan, Hong Kong, the ASEAN countries, could have an economy larger than NAFTA or the European Union. The region, already well known for its high savings rate, could produce between \$1,200 to \$1,300 billion in additional annual savings that it does today, thereby becoming one of the largest capital markets of the world. At the same time, the region will serve as the largest user of capital of the world. Asia Development Bank estimates that by the year 2000 the region will have spent almost a thousand billion dollars in investment in infrastructure projects alone.

What does all this mean? Asia may well emerge as the world's largest producer, capital lender, capital borrower, as well as the world's largest consumer market. Asia's economic and political impact on the world in the decades to come cannot be overlooked. This growing influence on the world stage should be seen in a favorable manner by the United States. The growth of Asia's economy is good for everyone. This is not so different as to the global benefit resulting from the growth of the U.S. economy. Larger markets with a broader range of needs for goods and services provide opportunities to everyone interested in trade and business. And educating people, lifting them out of poverty, giving them decent living conditions is both good in its own right and essential if together, as a global community, we are to deal with our problem of

population growth and environmental degradation – the root cause of which is so often found in ignorance and poverty.

As Asia becomes increasingly important in the international scene, the United States and Asia must work together, hand in hand. In this respect, deeper understanding by U.S. of different Asian countries' history, culture, and differences in the national priorities will go a long way by creating a mutually trusting, respecting relationship between the U.S. and these countries in Asia.

I'd like to remind the audience that with the return of Hong Kong to China and Macao to China in 1999, 400 years of Colonial era come to an end in Asia. Fifty years ago, most of the nations in Asia were colonies – India, Pakistan – there wasn't even Bangladesh – but Bangladesh, Burma, Malaysia, Singapore, Indonesia, Vietnam – and the list goes on and on – Korea was a colony of Japan. The leaders in these countries, in many Southeast Asia countries, in Asia countries, are proud of the achievements they have made through these 50 years. These achievements were made, as I said early on, a great deal with the help of the United States.

But now, with the Colonial legacy, with outstanding achievements they have made, they want their voices to be heard. And I think it's only fair. Their voices need to be heard because, I was asked what was my comment about the United Nations Human Rights Charter, should it be reviewed? The question is not a review of the charter. When it was written, those countries weren't even in place. They were all colonies. Now they have grown up. Their voices need to be

heard. Whether there's a revision to the charter or not is another matter. But we have to respect these voices because we may have something to learn from the development of these countries.

From the unique spirit that is in Hong Kong, with the huge potential of our position as a gateway between the rising economies of Asia and the well-established markets of America and Europe, and with China's commitment that allows us to maintain our own proven systems, I am confident that Hong Kong will remain the preeminent counterpart to New York in Asia or Manhattan in China for the next century. I trust that our two cities will long endure as partners, as powerhouses for growth and as beacons for all men and women who inspire for a better life. Thank you.

(Applause)

#### QUESTION AND ANSWER PERIOD

CHAIRMAN WILLIAM J. MCDONOUGH: Well, thank you for a wonderful and most interesting speech. If the programs that you have for Hong Kong are those of a Conservative, they seem awfully progressive and very sensible; I'm sure, to everybody here. We have two distinguished questioners this evening – Mr. Winthrop H. Smith, Jr., the Chairman of Merrill Lynch International, and Dennis Weatherstone, the recently retired Chairman of J.P. Morgan and Morgan Guaranty Trust Company. As every good central banker, I will turn to my left for the first question, to Dennis Weatherstone. They will ask their questions in sequence. And Mr. Tung, who is obviously very capable of handling himself, will field the questions.

DENNIS WEATHERSTONE: Thank you very much, Mr. Chairman. I would like to start by saying what an honor and pleasure I consider it to be a questioner here today. Mr. Tung is a good friend, I'm proud to say, for, I'm not sure how many years, probably about 20 years. And he seems to have grown even wiser and his sense of humor is clearly just as sharp as it ever was, and I enjoyed his speech enormously. My first question, he referred to somewhat in his remarks, and it concerns what I might describe as income imbalances. We have, as you say, some bad things in taxi drivers and so on over here and we have a problem at the moment with imbalances between the highly compensated chief executives and chairmen largely due to, I think, the rise in the stock market and stock options. And it's gotten to be quite noticeable between that and the wage level which has been relatively stable, and so the imbalances become quite noticeable. You made the comment about the problem in Hong Kong of the age level, the growing population of old people and the immigrants. And I presume that has some kind of, touch of the same kind of thing, an imbalance between those people and those kinds of difficulties and the number of people who have been fortunate to have done well in the free market society. So my question is, do you have a plan how to tackle that?

THE HONORABLE TUNG CHEE-HWA: I want you to know, first of all, Dennis is a very dear friend of mine. Twelve years ago when my family business, when I was facing great difficulties in financial restructuring, Dennis was a wonderful friend, standing by my side, and said to me, C.H., carry on, you can make it. And to this day, I remember that. Dennis, thank you very much.

Hong Kong has these difficulties. The recent survey shows the rising level of poverty in Hong Kong. The numbers may be wrong, but one thing is clear, the level of poverty, of the number of people in poverty is increasing. This is first as a result of immigrants coming in from China, and secondly, as a result of relocation of our industries up north into China which has caused some dislocation of employment. These are really very serious issues and there are no quick fixes for them in a free market. What we need to be doing – in a number of areas – one is to make sure our economy continues to expand, and secondly is to make sure that those in their 30s and 40s receive the proper training and retraining. And we are doing that a lot and probably not yet good enough and we will try to do more. And thirdly, and it's equally important, is that for the longer term as we move towards more value-added direction, whether it's in the service sector or whether it's in the industry sector, we need to improve the level of our education. We, in Hong Kong, spend about 3% of our GDP in education, a figure substantially lower than the United States of America. But, on the other hand, I'm the first one to recognize throwing money at things doesn't necessarily solve problems. So we have to find a better way of educating our youngsters so that they will be more ready five years from now, ten years from now. I'm afraid the way we are grappling with it is on a free market basis. Whatever we can do to create the environment so the economy will continue to expand, retraining, training and retraining, but in the longer term, better education as we move further upscale.

WINTHROP H. SMITH, JR.: Mr. Tung, like Dennis, I too am honored to be on the panel, although Ray quickly pointed out to me, since it's the year of the bull in China, that I was the

only person on the dais with a bull on my card and that's why I'm the questioner. (Laughter) We have struggled, I think, to find some questions that wouldn't overlap and it's certainly very difficult. But one question that I know we both have, and it's certainly on the minds of many in the audience, is the recent turmoil in Southeast Asia. You stated very adequately how you have come through their crisis very adequately. Rather than ask the question of how you intend to manage the peg over the short-term, I'd rather phrase it a little bit differently and ask, as you go into the future and as Hong Kong is more inexorably linked to the economy of China and the greater China market, what role do you see the peg to the dollar playing? Will it inevitably be necessary or appropriate to have a peg to the U.S. dollar? Do you ever see a peg perhaps to another currency in Asia or elsewhere?

THE HONORABLE TUNG CHEE-HWA: This is a loaded question. I have to learn to speak like Alan Greenspan or Bill McDonough when they're asked about interest rates. You listen very carefully, you don't get an answer. (Laughter) I think the peg has served us so well for 14 years and I see no reason this should be changed. Obviously, with the turmoil in Southeast Asia and the depreciation of these currencies, Hong Kong's competitiveness is being hurt. But, in fact, the Japanese yen has depreciated even more over this period of time from 80-90 yen now to about 120 yen to a dollar. So we are being hurt from that point of view. But I see no reason to change our policy. I was asked recently, do you mean never? Well, nothing is forever, but I don't see any change at present at all. I think it served us well. We are going through a transition period. Stability is important. Predictability is important. And we'll keep that policy.

DENNIS WEATHERSTONE: Perhaps I could ask a small followup question and that is that you have a different exchange rate regime for the Hong Kong dollar than there is for the renminbi. And I wonder over time whether these might change in some way because arbitragers, as you know, are quite smart people and if they see two systems, they kind of look at them closely and see if there are some advantages to be gained. But it does seem to me that, as you quite rightly said, nothing is forever. And I'm kind of curious as to how the two currencies may be handled, if you have any thoughts about the future of the two?

THE HONORABLE TUNG CHEE-HWA: I think at this moment, it's really...we are focused on the Hong Kong dollar being linked with the U.S. dollar. It will stay this way for as long as I can see. There are obviously questions such as this that if down the road, it may take 15 years, 20 years, 25 years, the day will come when renminbi will become convertible. Then what is the role of the Hong Kong dollar, how the link will work? And these are the questions which obviously some of us will really have to think through very, very seriously. Fortunately, it's not something I have to deal with right now, but it is a question that needs to be thought through carefully.

WINTHROP H. SMITH, JR.: Perhaps if we could switch to another topic which is certainly on the minds of many people as they look at Hong Kong and that is the property market in Hong Kong. In your speech, you noted the emphasis and the goal of increasing the level of housing and moving towards building an additional 85,000 units and going to the goal of home ownership.

The balance between achieving affordable housing, competitive levels of property values, and yet maintaining the equilibrium that's existed in Hong Kong in the property sector is a delicate balance. I wonder if you could comment on some of the tradeoffs and some of the details of getting to your end goal.

THE HONORABLE TUNG CHEE-HWA: In Hong Kong the property market is too high. It is damaging our economy. It is not good for the society as a whole because middle-class people with a dream of home ownership see their dream evaporate away as the price climbed over the last 18 months or so. And there are also the new immigrants and others, a long waiting line to get into some decent housing at the lower end. So to me and to the community as a whole, housing is the number one priority for us. To be able to build these 85,000 units is the absolute priority of our community, and we've talked about this and we are confident this can be done. And the person at this moment who is spearheading this is someone who is quite well known to many of you who is our Financial Secretary, Donald Tsang, who is looking at it very carefully together with a team of people, making sure our target will be met and can be met. Now it is a very difficult problem for us because the prices are too high and there are many ways you can bring the price down. Of course, you can control the demand by, say impose a capital gains tax to curb speculation. You can control demand in all sorts of ways. But you can also manage supply better by pushing out more land, build the units faster, and this is the route we have decided to take. Because in managing this, on the one hand we need prices to be stable and preferably drifting somewhat lower. On the other hand, we have to be sure we don't introduce too many dramatic

and overzealous sort of procedures or taxation to cause a dramatic decline of the market. If the market drops 40%, 50%, 60%, the damage to the economy will be unthinkable. So obviously we decided not to use that particular option, increasing capital gains tax or introducing capital gains tax and all that, and decided to strictly stay with the supply side management, increasing the supply of the units. And hopefully by doing that we will achieve a gradual decline of the prices. Now it's easier said than done. And we will obviously monitor this very, very carefully. Sometimes we may be disappointed, but I hope over a period of time we'll get it right.

DENNIS WEATHERSTONE: Relations between China and Taiwan are, I guess, perhaps labeled as sensitive at times. Yet I believe relationships, business relationships between Hong Kong and Taiwan have perhaps not been as sensitive, have been quite good. How do you see the future business relationships developing between Hong Kong and Taiwan?

THE HONORABLE TUNG CHEE-HWA: Dennis, Hong Kong and Taiwan have an important commercial relationship, and this relationship is continuing. The flights between Hong Kong and Taiwan, whether it's Taipei or Kaohsiung, they are continuing. The shipping links between Hong Kong and Taiwan, they are continuing. Investment from Taiwan to mainland of China through Hong Kong is continuing. People going back and forth have little difficulty. All these things are continuing. They're important to Hong Kong's economy. They're important to Taiwan's economy. And they're important to China's development in the future. And I very much believe that by providing a continued opportunity for expansion in the economic field, in the field of

people going back and forth, we in fact create a better environment for the ultimate reunification of the entire country. And from all these, for all these reasons, we in Hong Kong, we work very hard to make sure this continues to go ahead. And so far it's going very well.

WINTHROP H. SMITH, JR.: You've already answered many of the concerns that members of the community had about the transition. One question, though, that I don't think you touched upon I would just like to ask at this venture. It's in the days leading up to the transition and the handover. There was a concern about the civil servants, the many talented civil servants who served so well over the years, some of whom you acknowledged and mentioned in your speech. In your early days, have you been satisfied with the transition and with the relationship with the civil service?

THE HONORABLE TUNG CHEE-HWA: My relationship with the civil service has always been very good. You know how newspapers are. They're trying to find things to say and create stories. The New York Times does that here in New York and our newspaper does it in Hong Kong all the time. And that's what it's all about. I think we are working very well together. And I was saying recently to all the civil servants, the principal secretaries, that we are fortunate as a group of people that with July 1, the beginning of a new era, we can dream about our future. We can think about where we want to be as Hong Kong in the 21<sup>st</sup> century. Where do we put ourselves in an environment where China is rapidly moving ahead, surely very soon becoming an economic power, in a world where East Asia will continue to move ahead, and in a world

where the global trading system is becoming more and more open? Where does Hong Kong fit in all this? How can we do better for our people? Where do we spend the money properly and carefully to improve our competitiveness? More in education, how much more? More in infrastructure, how much more? What do we want to do? And I said many other people, many other countries can dream about these dreams, have no way to get it done. But we have ways to get it done because not only we are master of our own destiny, we also have the means to do it because we have a huge reserve – obviously we won't squander it away. But, you know, it is a wonderful opportunity for all of us to be able to do things and we have the means of doing it. So we are moving forward very proudly, but very carefully, making sure we build a better future.

DENNIS WEATHERSTONE: I think all of us here have regarded Hong Kong as one of the world's leading financial centers, certainly I do. And there are some changes now, it seems to me, in China there's Hong Kong, there's Beijing, there's Shanghai, each presumably having some kind of role. And in the rest of Asia there's Singapore and Tokyo. Could you give us some thoughts about how you see Hong Kong, looking at its role in this dual capacity but within China and then within Asia generally?

THE HONORABLE TUNG CHEE-HWA: Dennis, certainly we regard our position as a leading financial center with a lot of \_\_\_\_\_ and we work very diligently to make sure that we stay that way. Competition is everywhere. I was last week in Singapore and we all agreed we are competitors, but we also agreed that competition is good for both of us to keep us on our toes.

Tokyo is deregulating. I'm not sure when they'll get there...(Laughter)...Tokyo is deregulating. Shanghai is really moving ahead. For those of you who have visited Shanghai recently, have to come away impressed by the plans they have, by the practical actions they are taking. I think what we need to do to be always in the forefront, for instance I mentioned the information era, I wanted our young men, our children to be so well-versed with the information era so that we can be best in the whole of Asia or the best in the whole world, and the investment needs to be made in education in that sort of area. Our regulation will always be there. Our taxes will be low, will be predictable. And we'll be transparent. And Dennis, you know, we will be a responsible member of the world international community. We participated in the rescue plan for Thailand, for the baht. Hong Kong, as tiny as it is, put up a billion U.S. dollars together with China, Malaysia, Singapore, Australia, Japan, and IMF and so on. So we would do all these things and making sure that from every possible way, a responsible member of the financial community and also have a leading edge, hopefully, over our competitors.

WINTHROP H. SMITH, JR.: I wonder if I could follow up on that question slightly. Two years ago there was a conference in Shanghai on Shanghai of the 21<sup>st</sup> Century. And I remember very clearly that vice mayor Shu said the goal by the middle of the next century was to make Shanghai not a leading global financial center, but one of the leading global financial centers. Inevitably, the comparison continues to arise. I wonder if you could project a bit into the future, and 25 years from now, how would you compare and contrast the two different cities as they both continue to become important centers?

THE HONORABLE TUNG CHEE-HWA: You know I was born in Shanghai. (Laughter) But I want to tell you I will make sure they will have a tough job catching up with us. I think obviously Shanghai has an immensely important role to play as a financial center, especially as the renminbi financial center. In Hong Kong, we have a role to play as an international financial center for China, I hope. The role, I believe, will be complementary. The country is so large. They will need these centers. And we additionally will be the center for Asia-Pacific, Asia region. In any case, as I said earlier on, when we compared notes in Singapore, competition is healthy and it will make us always stay alert and be running ahead, running faster. But I think on the whole, the relationship should be a complementary one.

DENNIS WEATHERSTONE: C.H., your answer reminds me somewhat of when I came over to New York from London and somebody asked me what I thought of New York as an international financial center. I said London was good, but I'm in New York now. I have a question perhaps which relates more to your history. You've been answering a lot of questions from banking types so far, and you're a shipping expert. I wouldn't even say you were, because I think that suggests the past, because I presume you still are. How do you see the future of shipping?

THE HONORABLE TUNG CHEE-HWA: Dennis, shipping really was difficult. If I knew politics was that easy, I would have left it long ago to come here to politics. (Laughter and Applause) Shipping, I think, will continue to be difficult. The real issue is that ship building is

now a mass production, technology type of industry. There's so many ship builders capable of building ships very, very quickly. And therefore, the time when you can make profit by buying ships cheap, selling ships high, the real opportunities, those days are not there anymore. You can make some profit if you're clever, but basically it's not there. So if you want to be in shipping, you have to be making honest profit by operating ships, making thin margins, and it is a difficult business to be in.

WINTHROP H. SMITH, JR.: In the recent year, there's been discussion about the value of traditional Chinese values by many leaders in Asia. I wonder if you could share with us some of your thoughts on how you reconcile the many good emphases that are placed on traditional Chinese values with the need to continue to promote original thinking, the challenge of openly receiving differing opinions, and the particular challenge we face today in the world of CNN, internet, and instant information from a global perspective?

THE HONORABLE TUNG CHEE-HWA: Yes, well, I think the first part of your question really is this, that it's an issue that I looked into a great deal, as I got involved in politics. Actually, human beings around the world, we are all the same. In fact, there's really a universal, a set of universal values which we all subscribe to. Whether it's the importance of family, whether it's the need for education, whether it's respect for elder people, we all subscribe to these things. But I think what happens is that different communities, different countries put different emphasis on these universal values. In America, your emphasis is on personal liberty, freedom, and the right

of the individual. And rightly so, because this is your history, this is your culture. Some other countries, because of their culture, and because of their religion or their history, they put a great deal of emphasis on other aspects. The need for more responsibility, putting responsibility to the community over the right of individuals, preferring quieter consultation rather than confrontation. In Asia particularly, you have to think in terms of Colonial legacy. You have to think in terms of countries needing to develop very rapidly to achieve a standard of living that they can feel comfortable and feel happy about. And when doing these things, you would say social stability is very important. Put aside your individual desire, let's all work together to get to where America is today. So I think each country is different. It has different history, different background. But what I would like to see is that we don't try to tell other people our way is the only way forward, because there are many ways to go about getting things done. The history and the culture of each nation is very different. I have lived in America for a long time. I think this is a great country. My children were all born here, two of them in fact in New York. They were all raised here, all went to school here, and this is a wonderful country. And I think American people genuinely, out of the goodness of their heart, want everybody else to have the same thing. But sometimes the other people are not quite ready for that, and we have to be sensitive about other people's culture and background. And the fact that there is an American renaissance shows how America can be successful and Americans are generous. And in the generosity, I think must include a sensitivity to other people's background, history, and culture. (Applause)

CHAIRMAN WILLIAM J. MCDONOUGH: Could we have one last, we will have one last

question from each of our questioners before we adjourn.

DENNIS WEATHERSTONE: Okay, thank you. I think you said, C.H., that an attraction of Hong Kong for international business had been a number of things, and I agree with it totally. A well understood rule of law – these are my words – a mature financial system, high energy people. I don't know whether you said that or I said that. I think we both agree on it. And working in a laissez faire economy, I think that's a nice description of the kind of economy. And I think that sounds great and I think you said you'd like to see that continue and I think we'd all like to see it continue. But as you look, say five years, down the road, there will clearly be along with a continuance of this, some changes. Could you just tell us two or three things, without making another long speech, that you would say at the end of five years I will be very proud if we could do this and this? Two or three.

THE HONORABLE TUNG CHEE-HWA: Well, Dennis, I would be very proud if at the end of five years, each year we have built more than 85,000 units of housing and that our property prices have stabilized and softened. I would be very proud that the "one country-two system" foundation is solidly laid down and we're piling ahead under the "one country-two system." I would be very proud if our young children, not only are equipped, capable to take on the 21<sup>st</sup> century, but also to know the Chinese heritage and Chinese culture. I would be very proud to see a China proud, taking its place as a responsible member of this world community of nations. I think I would be very proud to see Hong Kong and the United States continue to be good friends

as we should be. I can go on with a long, long list of things and you don't want me to make a long speech, but really there's so much one can do in five years. And Dennis, when I decided to do what I am now doing, I very often wake up in the middle of the night and say I must be crazy. But having now been involved in this responsibility, I really look forward to the challenge. I always think there are so many things I can do for Hong Kong. And the important thing is really to know that there's this much time in a day, identify the priority, get the most important thing done, and that's it. (Applause)

WINTHROP H. SMITH, JR.: That was such a good final question and such a good final answer, I hesitate to go last. So perhaps I can go totally different and ask more of a personal question that many of us might be interested in hearing. When a former boss of mine went from the private sector at Merrill Lynch to government, he was asked shortly after being in Washington, what were the greatest challenges of doing the transition? And I remember he responded, "When I was chairman at Merrill Lynch, and I said, jump, everybody responded, how high?" He said, "Now that I'm in Washington, I'm the one that has to jump." Perhaps just for a final few moments, you could share with us some of the differences that you've experienced in going from the private sector into public life.

THE HONORABLE TUNG CHEE-HWA: It is really a tremendous challenge and tremendous change. I'm not used to the limelight. I go everywhere with bodyguards. My wife and I occasionally used to like to go to movies. The last time we went to a movie it was with three

bodyguards sitting next to us. And you should try that, it's quite funny. (Laughter) It is very different because you feel a much greater sense of responsibility that everything you do affects the lives of so many people, and you cannot make mistakes. And I know, although things are going well now, probably along the way over the next five years, I will stumble not once, not twice, maybe many times. But these are the challenges that you face and you really have to think a lot more about everything. What are you doing? Why you are doing it? At the end of the day, what does it mean to Hong Kong? And it is a very different feeling, a very different responsibility. But as I say, I enjoy the responsibility. I look forward to the challenge every day. And the gray hair and gray eyebrows and all, I'm happy. (Applause)

End of Meeting