

THE ECONOMY OF THE HKSAR: SHIFTING FOCUS FOR SURVIVAL

While the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) will remain important to the PRC, proper, at least for the next few years, as the PRC opens its arms to waiting and impatient competition, the importance to the PRC of the HKSAR will wane.

And this situation could come about faster than had, hitherto, been expected.

As TARGET has stated, many times in the past, every time that the PRC, proper, makes a substantial improvement to its infrastructure, from communications, to highways, to ports and airports, to manufacturing, to medical facilities, to power generation, it is as though another nail were being pounded into the coffin of the HKSAR.

At what date the PRC will be admitted to the World Trade Organisation (WTO) is still unknown, but the date appears to be getting further and further away.

For many people, the further away it is, the better for them.

It was thought, just last year, that the PRC would be a full member of the WTO before Christmas of 2000.

Now, with diplomatic relations between the United States of America and the PRC, having been soured, badly, due to the Hainan Island incident, it is only too clear that the US Government will, once again, be the fly in the ointment of the PRC: It will take action, directly or indirectly, to thwart the PRC Government's avowed intent to be a full member of the WTO.

The economic downturn in the US is almost guaranteed to inhibit external growth of the HKSAR for the rest of this year, to be sure.

The US is, still, the largest single market for the HKSAR's goods and services so that when that market suffers, it has a domino effect on the HKSAR in very quick fashion.

The HKSAR Government will follow the lead of the US and, as the US Federal Reserve eases back on interest rates, the HKSAR will have to follow suit because the Hongkong dollar is linked to the US.

Lower interest rates in the HKSAR will stimulate domestic demand and this, in turn, will cushion the immediate impact of the expected export slowdown.

Lower interest rates may stimulate the property market, to some extent, but there is likely to be a great deal of resistance to the middle classes, making fresh financial commitments in what will, definitely, be dim immediate prospects.

Many of the HKSAR's middle class are locked into the stock markets of the HKSAR – the Main Board of The Stock Exchange of Hongkong Ltd and The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd – and these 2 markets have the distinction of being the worst performing stock markets in Asia over the past 3 years.

Billions of Hongkong dollars have been wiped off HKSAR stock portfolios, making many people squeamish of making fresh commitments in the territory.

For those investors who tried to catch a lift on the NASDAQ in 1999, they have all been wiped out.

For those investors, who did not engage in widespread speculation on the NASDAQ, they have noted how many shares of the former '*darlings*' of US investors have gone from \$US200 per share to \$US5 per share – or seen the companies go belly up with the shares, today, worth nothing.

They may thank Heaven for restraining them in making such speculations on the NASDAQ over the past few years, but, at the same time, they will be more than a little careful in not being seduced into making investments, even at these, seemingly, cheap levels.

If the PRC graduates to be a full member of the WTO, sometime in the last quarter of 2001, or in the first quarter of 2002, it is likely to give a boost to the financial services, the commercial services and the legal services in the HKSAR, almost immediately.

This, too, will soften the blow of lower exports as the services industry of the HKSAR expands in order to keep up with supply-demand factors.

However, when the sun rises over the HKSAR in the year, 2005, or thereabouts, the penny is likely to drop as it becomes only too apparent that the HKSAR's importance to the PRC is waning, and waning fast.

Inevitably, the HKSAR will lose a great deal of its trade and financial '*muscle*' to the PRC, proper, as well as lose a great deal of its trade from the PRC.

The HKSAR will cease to be the PRC's '*middleman*' soon after the Beijing joins the WTO because the world will be able to deal with confidence, directly, with Beijing in order to obtain exports from the world's most populous country, which will have to follow the rules of the WTO for the first time in its history.

As soon as the PRC opens up its markets to international competition, its services sector will open up as an absolute necessity, cutting deeply into the HKSAR's services sector.

It will not happen, gradually: It will happen, almost overnight.

The HKSAR will have little time to adjust since, to greater extent than many people seem to realise, many members of the HKSAR's services sector have opened up in the PRC, proper, already, in preparation for the time that the HKSAR will cease to be the linchpin for the PRC, the central cohesive element that facilitates business in the PRC.

The vast distances in the PRC make it impractical for the HKSAR to be the '*doorway*', any more, to the PRC, as it was in the past.

Costs of operations are so much cheaper in the PRC than in the HKSAR that the importance of these 416 square miles, to entities, such as the large US wholesalers, the international garment importers, the companies that use the PRC to outsource goods and services, etc, will look to establish bases nearer the source of production.

That will leave many HKSAR companies out in the cold.

The HKSAR will have to look to expansion within Asia, or go up-market, as did Denmark, some decades ago.

On the political front, the Beijing appears to be determined that Mr Tung Chee Hwa shall have a second term of office, irrespective of whether or not he is popular with the nearly 7 million inhabitants of the HKSAR.

His Number Two, so to speak, will be Mr Donald Tsang, the former Financial Secretary, the man who advocated and carried out interference in the marketplace, during the 1997 financial crisis.

Beijing appears to like Mr Tsang, for good reason: He is a moderate and will do as he is told.

Mr Tsang, however, may have a difficult problem, from time to time, in trying to balance the Deng Xiao Ping Mandate of One-Country, Two Systems with the changing requirements of Beijing: Be flexible; and, do as I tell

you, if you please.

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