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SHOULD THE GOVERNMENT BE PERMITTED TO INVEST, HEAVILY, IN THE HONGKONG STOCK MARKET ?

Voices have been raised, over the past few months, to the effect that the Government of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) should not take material positions in companies, listed on The Stock Exchange of Hongkong Ltd.

The debate over whether or not the HKSAR Government should be permitted to invest in publicly listed companies followed confirmation that the Government had acquired a material stake in the Issued and Fully Paid-Up Share Capital of Hongkong Exchanges and Clearing Ltd (Code: 388, Main Board, The Stock Exchange of Hongkong Ltd).

(It is unclear, today, how large is the HKSAR Government's stake in this company, but it is thought to be more than 20 percent.)

If the monies, held, directly or indirectly, by The Monetary Authority of the HKSAR, may be equated with a country's sovereign fund, then, there are valid and logical reasons for permitting the Government of the HKSAR to invest part of these monies in select corporations, listed on The Stock Exchange of Hongkong Ltd.

According to unimpeachable sources, foreign asset holdings of non-pension sovereign wealth funds, around the world, are about $HK20.28 trillion.

That very material sum of money is about 5 times larger than it was in 2000.

In addition, it is well known that the Government of the United States and foreign government pension funds hold at least $HK12 trillion in foreign assets.

On Monday evening, it was reported that The Exchange Fund (of the HKSAR), which backs up the Hongkong dollar, recorded a loss of about $HK14.60 billion for the quarter, ended March 31, 2008.

It was the first quarterly loss since 2005.

About 19.14 percent of the losses, that is about $HK2.79 billion, was due to losses in respect of the HKSAR Government's investments in equities, which must have included, of course, losses from investing in Hongkong Exchanges and Clearing Ltd.

It is held in certain quarters that the HKSAR Government should not be seen, openly, to be investing in companies, such as Hongkong Exchanges and Clearing Ltd, but it is widely known that, in the US, at the Federal level, US Government pension funds actively manage more than $US3 trillion (about $HK23 trillion) in assets – including partial ownership of private companies via acquisitions of stocks and shares.

International capital flows, such as are facilitated by sovereign funds, inter alia, reflect healthy portfolio diversification.

If money is fungible, which it, certainly, is, then, its function, as far as the HKSAR Government is concerned, is to facilitate the acquisitions of assets in order to enlarge the reserves of the territory.

Which is part of the function, of course, of The Monetary Authority and The Exchange Fund, the last-mentioned, being the '*backbone*', if you will, of the Hongkong dollar.

An old saw that has been resurrected, recently, is that, if the HKSAR Government continues to increase its equity stake in Hongkong Exchanges and Clearing Ltd, it could end up in virtual control of the company – and this could be to the detriment of the minority shareholders.

This would appear to be a very lame argument because, among other things, if the HKSAR Government sought to introduce undue influence over the Board of Directors of this, or any other, publicly listed company, it would be facing a barrage of criticism from nearly every quarter of the territory.

This could well lead to social unrest and a loss of trust in the laissez faire philosophy of the HKSAR, something that has been held sacred over the past 70 years, at least, when the territory was a British colony.

Unlike Singapore, which is an authoritarian government, controlled completely by the Lee Kuan Yew Family, the HKSAR Government has to account for its actions to the Legislative Council.

It would be helpful, in the opinion of this medium, if the HKSAR Government made known its mandate in respect of its investments in equity markets, at home, via The Monetary Authority, The Exchange Fund and/or any other Government organ.

In other words, transparency could allay the fears of those who, more often than not, talk the loudest for the sake of being heard.

Empty vessels make the most noise.

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