

**BEIJING HAS COME TO HONGKONG'S AID,
BUT THERE IS A PRICE TO BE PAID**

There is a very strong probability that the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) will be forced to align itself much closer to the economy of the Mainland.

It is quite likely to happen much sooner than many people had, hitherto, expected.

There will, undoubtedly, be some resistance to such a move with the pro-democratic forces of the territory, speculating and complaining that the implications of such a move would come to mean that their aspirations would be deferred, ad infinitum.

But Beijing will encourage the move of having much closer ties between its southern-most territory, the HKSAR, and Guangdong and the Chief Executive the HKSAR will, naturally, comply with the commands, emanating from on high.

Ironically, regardless of stentorian arguments to the contrary, this move may well be the only method to ensure the survival, leading to the expansion of the HKSAR's economy for the remainder of this year, especially in these difficult times, the likes of which have not been seen for more than 8 years.

Last Thursday, it was announced that the value of HKSAR exports fell by about 11.40 percent in December 2008, Year-On-Year, representing the largest decline in exports since September 11, 2001.

In November 2008, the value of HKSAR exports had declined, Year-On-Year, by about 5.30 percent.

Perhaps, more telling was that the value of HKSAR imports fell by about 16.20 percent, Year-On-Year, representing the worst decline of the past 5 years.

The trade deficit for December 2008 was \$HK11.76 billion, the HKSAR Government announced.

For Calendar 2008, the trade deficit came in at \$HK201.14 billion, an increase of about 11.40 percent, compared with the trade deficit for Calendar 2007.

The idea of a megacity, linking Guangdong with the HKSAR and, perhaps, including the Macau Special Administrative Region (MSAR) of the PRC, which is, also, suffering, economically, so that the economies of territories have the ability to complement each other in an interdependent embrace, looms larger and larger on the horizon, in **TARGET**'s view of things.

Beijing has, over the past few months, initiated a number of economic packages aimed, primarily, at stimulating the domestic economy of the country.

Beijing has little alternative as it sees its 2 major trading partners, the United States of America and the European Union, stumbling about in the darkness, both economies, being unable to find viable solutions to the worst economic downturn since The Great Depression of 1929.

US President Barack Obama is well on the way to obtaining another \$US825-billion (\$HK6,435 billion) economic stimulus package for the largest and most-important, single economy of the world.

He faced some fairly stiff opposition from members of the Republican Party when the voting took place at The House of Representatives (244 votes for the proposal and 188 votes against it), but, at the end of the day, no doubt, the new US President will have his way once it is approved by the US Senate.

This huge injection of cash, pumped into the system, is, in this medium's opinion, unlikely to result in the promised land, being rediscovered, but, short term, no doubt, it will have a positive psychological effect.

Nevertheless, it will be little more than the snake oil, sold by roaming 19th Century purveyors of their worthless liquid preparations in the West of the US, following the cessation of hostilities between the states on April 9, 1865.

As **TARGET** () sees the situation, it appears that the Obama Administration is making little to no proactive moves, aimed at tackling the deep-rooted problems, which caused the current economic malaise.

To understand the cause and its effects on the largest, single economy of the world, it seems to this medium, is the key to finding the most-appropriate '*medicine*' to cure the economic disease.

Over the Chinese New Year period, up to last Friday, more than 100,000 more jobs were lost in the US as one company after another was forced to let workers go or face financial ruin, down the road.

The recession in the US is worsening.

Nobody would be willing to disagree with that fact.

Shipping companies, around the world, are suffering the worst time in many a decade, with many of their vessels, plying the seas, almost empty, while many shipowners have had to cancel orders for newbuildings and have hoisted the '*For Sale*' flags on some the masts of their ships.

Freight rates are continuing to fall – and are likely to continue to plumb for even lower depths.

For shipowners to accept offers, even at today's reduced freight rates, in order to transport goods from one port to another, even at a loss, may well be preferable to laying up vessels for any appreciable length of time since to allow vessels to remain idle could be utterly disastrous.

Last year, freight rates fell from between \$US15,000 and \$US20,000 per 20-foot container to zero for destinations in Europe from Asia, with the shipper, paying the fuel surcharge, only.

Some shipping companies suspended routes to certain Mediterranean ports because there was insufficient cargo to merit continuing the service.

Banks are only too aware of the situation that many shipowners are facing and it is known that many banks have cut, completely, credit lines to a number of ship-operating/ship-management companies.

One inter-island, high-speed ferry service in Japan ceased operations, completely.

What Is Presaged May Not Come To Pass

President Barack Obama has claimed that his economic stimulus package will result in the creation of millions of jobs.

In the private sector of the US, companies are not going to hire more staff unless there is a strong probability that US consumers will return to the High Street in sufficient numbers and with money in their pockets, all out to buy domestically produced goods and services.

Consumer spending in the US account for a goodly part of the Gross Domestic Product, placed, today, at about 66 percent.

The introduction, today, of another financial panacea does not appear to be the answer to what ails the US economy since it does not start to tackle the root cause of the present problems.

For the PRC, its economy will not be hurt to the extent of the economies of the US and European Union although, without question, the growth of its economy will slow down, and, in fact, that has, already, come to pass.

For the HKSAR, with only about 7 million-plus Chinese residents, it has, historically, relied on its manufacturing base to bring in the shekels by producing goods for the US and the European Union, primarily.

Exports to these 2 regions of the world will continue, but the volume of exports in US dollar terms will continue to dwindle in line with a pull-back in consumer spending in the US.

However, the exports of such goods as garments, shoes, refrigerators, toys, etc, from the PRC and the HKSAR will continue because US and European consumers are not able to afford to purchase such items from anywhere else in the world in such quantities and at the prices, offered by Far East Asian producers.

For HKSAR sourcing companies, however, such as Li and Fung Ltd () (Code: 494, Main Board, The Stock Exchange of Hongkong Ltd), they are in for a rough ride.

Some of them may well have to shut up shop before the year is out.

Sourcing companies rely on bank financing in order to permit them to fund factories with the necessary bridge financing to permit the factories to purchase the necessary raw materials in order to allow them to churn out goods, destined for US and European markets, in the main.

Without bank support, sourcing companies and factories cannot operate, at least, not effectively.

The worldwide recession is not going to vanish within the next quarter or so and could well continue into the first quarter of 2010 – or even beyond that time, the way that things appear to look, today.

Banks, around the world, are afraid to lend money to other banks, and importers in the US and Europe are, likewise, afraid to lend money to factories, especially those in the south the PRC, because many factories in this part of the world have just closed down, overnight, leaving a trail of debts in their wake.

It is estimated that more than 1.50 million workers have lost their jobs in the province of Guangzhou in the past year.

Since late last year, Asia has found itself caught in a rapidly deteriorating environment.

The situation in the most-populous part of the world is such that it is considered almost incredulous that it could have transpired so quickly as to cause the economic outlook for the region to crumble into dust.

Export volumes, in US dollar terms, have just collapsed.

Just like that.

The reduced volume of exports has impacted on the manufacturing sector.

The economy of the PRC has been hit by the recession in its housing sector, specifically, in housing-related construction, in addition to suffering the knock-on effects of the recession, currently experienced by its major trading partners.

Since November 2008, export orders started to dry up and the situation worsened further in December 2008.

The situation continues to worsen.

The collapse in the value of exports will continue, in **TARGET**'s view, for at least the next 6 months, and may well affect the growth of the Gross Domestic Product by between 2 percentage points and 3 percentage points.

(Gross Domestic Product = The gross domestic output of a country divided by the total number of its inhabitants.)

Interest-rate reductions and an easing of bank lending in the PRC should help to stimulate the domestic economy of the country.

The Gross Domestic Product for 2009 is being targeted to expand at the rate of about 7.80 percent, down from about 9 percent for 2008.

For the HKSAR, the figure for the growth of the territory's Gross Domestic Product is being targeted at the figure of negative 2.10 percent.

History has shown that, since the PRC assumed sovereignty over the 416 square miles, now known as the Hongkong Special Administrative Region, the PRC has come to its aid whenever needs be such.

In the current economic climate of the territory, it is clear that it needs as much help from Beijing as it can get.

There will, however, be a price to be paid ... somewhere down the line.

Universal Suffrage may be a lovely idea, but filled rice bowls still come first in line.

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