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LOOKING FORWARD INTO 2010: BUY ! BUY ! BUY !

It appears, only too clearly, that one of the best places to invest, at least for the immediate future, is in Asia.

TARGET () has, for the past few years, maintained this stance: This medium continues to maintain this stance.

And nowhere in Asia looks better than in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) and in the PRC, proper, being distinct and separate from the HKSAR.

The economy of the PRC is headed for bigger and better things in 2010 and, as it blooms, there will, undoubtedly, be a knock-on effect for the HKSAR.

The areas of investment that appear to have the best chance of reaping the highest rewards in the coming year are in property investment and in equities, playing one against the other when needs be such.

The PRC is fast evolving into a consumer economy and the former, very heavy dependence on exports, has waned.

However, the lifeblood of the PRC will, always, be in the country's ability to produce and sell quality goods at competitive prices to the world.

The PRC, today, is unlike the PRC of 3 decades ago when HKSAR industrialists determined to move their factories into the south of the PRC – Guangdong, especially – where the costs of labour and land were much lower than in the HKSAR at that time.

In those days, however, the productivity of the PRC's labour force, generally, was much lower than the productivity of the labour force of Hongkong – as the HKSAR was then known – so that the benefits of moving factories to the south of the PRC were, more often than not, questionable in terms of corporate entities' bottom lines.

Times have changed, markedly, since the early 1980s and, today, the productivity of labour in the PRC is as good as, if not better than, the productivity of labour of the HKSAR.

Today, the financial situation in the south of the PRC is very different from even 5 years ago, however: The PRC labour force is much more efficient and effective than ever before in the history of the PRC and further education and sophistication in the workplace has brought demands from labour, demands that, often, cannot be met by employers due to a number of considerations.

Also, land costs in the PRC have risen greatly over the past few years so that start-up costs, as far as would-be industrialists are concerned, looking at the south of the PRC as a new base of operations, have escalated greatly.

It is estimated by the PRC Government that, in the past few years, as many as 7 million migrant workers left the south of the PRC, looking to work, further north.

Hundreds of factories in Guangdong have been forced to close due to the inability of their managements to sell their goods to traditional overseas' customers and/or the inability of the factories to produce goods at competitive prices.

Many of those Guangdong factories had been funded with HKSAR money and so, when the US economy started to wilt in the final quarter of 2007 and the first half of 2008, it meant that these factories had no alternative but to shut their doors – for good.

One does not throw good money after bad.

The Changes

During the past year or so, there have been dynamic changes in the PRC and the standard of living has been rising fast and continues so to do.

The standard of living is rising so quickly, today, that the infrastructure of the country is having a difficult time, keeping up with many and varied of the changes.

One look at Shanghai and the outlying areas of this sprawling city, with its miles of new, residential flats, being erected in clusters and complexes, all at a record-breaking pace, and one does not have to be an economist to realise what is happening.

Shanghai is the largest city in the PRC, proper, and it is one of the largest metropolitan areas in the world, with a population of about 20 million people.

However, the figure is, only, the official one. There have to be many more Chinese people, having flooded into this huge city from other provinces and villages, all looking for work and wanting to better their lot.

The flat land area of Shanghai measures about 6,218 square kilometres (about 2,401 square miles).

There is a huge demand for new, residential accommodation in this part of the PRC.

With a new Disneyland theme park, about to be built in Shanghai, one that is sure, in time, to rival the Disney theme park of the HKSAR, it is obvious that Shanghai is just starting to regain its lost position as a financial centre in the PRC, proper.

Shanghai is not a bubble economy, but a city that is about to take its rightful place in modern China as a financial powerhouse.

No matter what the Government of the HKSAR might say in order to placate the business leaders of these 416 square miles, Shanghai is out to trump HKSAR where-ever it is able.

The HKSAR will have to reinvent itself, at least to some extent, but, regardless of the difficulties that lie ahead, it will, always, be a financial centre in the south of the PRC in its own right.

Unless there are radical changes in the PRC, taxes in the most-populous country of the world will continue to be double those of the HKSAR so that, from this standpoint, the HKSAR will have it over the PRC, proper, as far as doing business is concerned.

The HKSAR, however, will never regain its position as a manufacturing base for anything: It will have to be content as a service-orientated city from hereon in.

That nomenclature for the HKSAR is, just about, engraved in stone.

While manufacturing continues apace in the PRC, the goal posts, so to speak, have been moved so that HKSAR capital continues to play as big a part in industry as it did 30-odd years ago.

However, the building boom in major cities of the PRC is unlikely to wane due to the heavy demand for housing of all kinds.

Without blowing the trumpet of any particular, public company, listed on The Stock Exchange of Hongkong Ltd, it is well known that quite a number of them have large land banks in Shanghai, Beijing, Guangzhou, Kunming, Hangzhou, Shandong, Inner Mongolia, and tens of other major PRC cities and their surrounds.

Many of these land banks had been purchased some time ago and, when they are developed, HKSAR companies will reap the rewards.

Ironically, Taiwan is playing a role in the expansion of the PRC economy as a number of its companies have established operations on the outskirts of major cities where they have built large complexes to house tens of thousands of workers.

Politics aside, money is still money.

Many of these complexes are not producing anything: They are acting as service centres and repair facilities for high-technology companies, such as Apple Incorporated , Hewlett-Packard Company, Sony Corporation, NEC Electronics Corporation, Fujitsu Ltd, Toshiba Corporation, Lenovo Group Ltd, and Acer Incorporated, to mention some of the best-known customers.

At these complexes, semi-skilled technicians are replacing faulty or damaged parts of computers, printers, iPhones, Blackberries, servers, smartphones, digital television sets etc.

Veritable armies of Chinese clerks, many of them, having never worked as clerks in the former lives, churn out invoices – more than 30,000 per day per clerk at one complex which **TARGET** visited, recently.

This facility is located about 2 hours from metropolitan Shanghai – and it is, without question, a mini-city of more than 13 separate buildings, housing the repair centre and office complexes.

This complex has been operating since March 2001, **TARGET** discovered. It continues to grow.

The lower-paid, clerical workers at complexes, such as the Taiwan-financed one, receive wages at the present, going rate and receive, in addition, 3 meals per day, with many of them, living in dormitories, provided by their employer.

One need not extrapolate from this scenario in order to speculate on the future because, as these workers become more knowledgeable and master their new skills, they will forsake such service complexes for a better lifestyle, with higher wages and with better, long-term prospects.

They will, of course, be replaced by another batch of unskilled/semi-skilled clerks who will churn out the invoices – and the entire cycle will start again.

The release of tens of thousands of former clerical staff into the labour force of cities, such as Shanghai, will, from time to time, put a strain on existing infrastructure.

Nature, being what it is, will result in these workers, all wanting to have a slice of the *‘cake’* that they have helped to bake.

More residential flats will be required; the demand for more motor cars is certain to follow; more household appliances will be demanded, and so on and so on and so on.

Exports

The US economy still requires the PRC, proper, to be the tailor shop of the world, a large producer of electrical appliances for the home, from washing machines, to microwave ovens, to refrigerators, etc, a large producer of toys, a base to manufacture cosmetics, spectacle frames, optical products of all kinds, cups and sauces, camping equipment, including tents for the US Army, condoms, and, you name it, the PRC will, and is, asked to produce it.

If the US cannot purchase goods from the Middle Kingdom in order to satisfy the requirements of the population of the US, it could well lead to an inflationary spiral in The Land of The Free and The Home of The Brave unless an alternative source of the supply of PRC-produced goods can be sourced.

Mexico, once thought to be an alternative source as a producer of some of the goods, now being manufactured in the PRC, has proved to have been a wet squib.

Canada is much too costly as a manufacturing base for the US in spite of its proximity to the US, and, to top it off, the work ethic of Canadian workers, in general, is such that they are, by and large, very lazy compared with their Asian counterparts.

Only in the PRC, proper, can the US rely on a large and steady stream of consumer goods of a reasonable quality and at a competitive price.

The PRC, no doubt, will maintain its dominance in this field.

More jobs for the boys and girls of the PRC, proper, will mean a better standard of living, leading to more demands for the consumer goods and services, which have been denied to the population of the country for many a decade.

All this bodes well for this fast-growing country.

As the economy of the PRC, proper, rides the crest of one wave after another and efforts to diversify the country’s economy start to pay dividends, the HKSAR economy will benefit and PRC funds will flow into these 416 square miles because, among other things, the HKSAR has many advantages for the international investor.

The HKSAR maintains a tax advantage, compared with the PRC, and the philosophy of this little enclave, located at the bottom of the PRC, has, always, been to embrace a relatively low, corporate tax base, ranging between 15 percent per annum and 17 percent per annum, in order to encourage investments, and the territory has, always, maintained the status of an entrepôt economy.

There is no capital gains tax in the HKSAR and the infrastructure for investing in stocks and shares is well established and very well regulated.

Further, due to the more than a century of British rule, the HKSAR places few restrictions on businesses and a minimum of government interference, believing very much in the principle of laissez faire.

The HKSAR has become somewhat of a cash-cow for a number of companies in the PRC, proper, wanting to raise cash from international investors via The Stock Exchange of Hongkong Ltd.

The growth of Initial Public Offerings in the HKSAR is unlikely to wane in 2010.

There is, also, the added advantage that material sums of money may be moved in and out of the territory with relative ease.

The Hongkong dollar is a readily convertible currency.

The renminbi is not a readily convertible currency and restrictions continue as to the amount of renminbi that may be purchased, daily, by non-Chinese citizens.

At present, there is a cap of 20,000 renminbi per day.

In due course, this will, most likely, be relaxed as soon as the Government of the PRC decides to make its currency freely convertible on the world stage.

The business people of the HKSAR are well known as being very astute and understand how the wheels of industry turn.

In the PRC, proper, many people are just beginning to learn the ways of capitalism and to understand the implications.

It will not take long for the PRC to catch up to the HKSAR, however.

Today, in the PRC, proper, foreigners are not permitted to purchase commercial or office property and they are restricted to purchases of a limited number of residential properties, too.

This is quite likely to change as soon as supply, catches up with demand.

For a residential property, most banks are quite willing to lend up to 70 percent of the purchase price, depending on the age of the property and the age of the purchaser.

The current interest rate in Shanghai is about 2.90 percent per annum for a 30-year mortgage.

Foreign-owned corporate entities, registered in the PRC, proper, may purchase commercial or office property, but only if it is for that entity's use.

These rules will, no doubt, change in the fullness of time, but statutory changes in the PRC often take time: The wheels of the PRC bureaucracy, more often than not, turn slowly.

There is a one-percent Capital Gains Tax in the PRC, proper, based on the selling price of a piece of property, and there is a Sales Tax of 5.50 percent on the selling price if one sells a piece of property within the first 2 years of its purchase.

The translation value of the renminbi vis-a vis the Hongkong dollar has appreciated by about 12 percent in the past few years.

It is more than likely that it is going to appreciate by another 12 percent in the next year or so, in **TARGET**'s opinion.

Buying property in the PRC, proper, therefore, would appear to be a method by which one could make a turn on the rising market value of the property and, at the same time, make a turn on the translation value of the renminbi vis-à-vis the Hongkong dollar, the latter-mentioned currency, being officially pegged to the US dollar at $HK7.80:$US1.00.

Bottom Line: Buy! Buy! Buy!

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