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MR HONGKONG INVESTOR:
STAY OUT OF THE STOCK MARKET
FOR THE TIME BEING

Well, folks the statistics are in!

And the answer is: The Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) is, still, in deep trouble.

And all the Chief Executive's horses, and all the PRC Government's men, will not be able to put the shine on the 'sick' HKSAR economy -- at least, not at this time -- again.

Back on May 3, this observer stated, categorically, that the Hang Seng Index was unlikely, at this time at any rate, to rise any appreciable amount, passed the 13,330-mark -- because the fundamentals did not justify the seeming euphoria which vested interests were drumming up, for obvious reasons.

Well, last Thursday, the HKSAR Government confirmed that the Gross Domestic Product (the chief economic indicator of a territory's economic strength, measuring the monetary value of the total annual flow of goods and services) had shrunk by about 3.50 percent, during the first quarter of this fiscal year.

What this means, folks, is that the economy of the HKSAR is far from being healthy. In fact, it means that the HKSAR economy is a little sick.

Surprise! Surprise!

And so, as Moiche Menkovitz would have said: 'So!' Vat else is neu?'

What is new is that, still, certain property tycoons in the HKSAR are, still, intent on trying to bamboozle gullible investors with thoughts that the economy is on the mend to such an extent that it is time to run up the Hang Seng Index to the 20,000 level and beyond.

From the present economic indicators, not using any chartist's predictions, religious incantations, in an attempt to invoke the happy spirits, or employing the services of an historic Greek oracle in the manner of Socrates, it would appear that the Hang Seng Index could well hit the 10,000 level long before it hits the 20,000 level.

This is saying quite a bit, and is pessimistic to the extreme, TARGET realises this, because it means another drop of about 17 percent on last Friday's close of 12,059.25.

But there is every reason to think that the stock market could be in for a bit of a bath in the short term.

It is impossible to say, exactly, how much the Hang Seng Index will fall, and when, but the downside appears to be more attractive than the upside if one studies, among other things, the HKSAR Government's statistics of last week.

The Government has admitted that local consumer demand is flat, and that there was not much local investment in the HKSAR, during the first quarter of this fiscal year.

These factors, the Government has claimed, helped depress the HKSAR economy during the first quarter.

The Government went on to say that the trade position has been, considerably, weakened due to a lack of demand of our principal exports; and that this factor, alone, would put a damper on expansion of the HKSAR economy.

Mr Donald Tsang Yam Kuen, Financial Secretary, also stated that the HKSAR was likely to grow at the rate of about 0.50 percent for this fiscal year.

What Mr Tsang did not say was that the expected growth, of the HKSAR economy for the remainder of this fiscal year, was based on a depressed economic state of affairs during the previous 1998 fiscal year when the HKSAR was in the midst of a deepening recession.

And the HKSAR is, still, far from being out of the woods, folks.

The run-up of the Hang Seng Index, prior to May 3, did nothing for the HKSAR economy because, still, the value of goods and services, that is personal, government and investment spending by HKSAR's industries, domestically and round the world, was not assisted by the Hang Seng Index bubble.

And bubble was all it was, folks.

The bottom line is, and always has been, as follows: What are today's economic fundamentals?

Having dealt with this situation, the next major problem, which has just reared up, is the fact that the United States appears intent on not supporting the application of the PRC Government to join the World Trade Organisation (WTO).

At least, that appears to be the latest missive, emanating from Washington.

In addition, there are suggestions that the US Government may look into the matter of the PRC's trading status with it: Most-Favored Nation Status (MFN).

MFN is a commercial treaty with which the US Government anoints its 'friends' whereby, in the case of the PRC, goods are permitted into US territories at preferential taffic rates, preferential rates which are not afforded to other trading partners.

MFN has to be proposed and ratified by the US Congress, annually. It is not an automatic process.

And Congress may just not be so inclined to renew MFN for the PRC, this year, in view of a number of matters, all of which have only recently surfaced, and all of which impact on the presumed, friendly US-PRC trade and political relations.

Last week, the US Government announced that it had discovered that the PRC Government had been a bit of a poacher of US Government secrets -- for the past 2 decades!

Spying may be a bit harsh to label the PRC Government, but that has been one term which has hugged the headlines, following a report by the US Government's Central Intelligence Agency, a report which was far from being kind to the modus operandi of the PRC's Propaganda Department.

Now, both the Democratic Party and Republican Party of the US want to slam the door shut on trade negotiations with the Government of the PRC.

Adding oil, to this diplomatic fire, is the fact that, last week, the PRC Government did little to prevent attacks on the US Embassy in Beijing, and the setting fire to a couple of major, US businesses, located in the PRC.

The People's Liberation Army was seen on television, sitting around, while Chinese national rioters did their best to tear at the walls of the US Embassy in Beijing.

On the other side of the coin, however, one wonders whether or not the US economy can sustain a situation whereby inflation picks up as much as 3 percent, due, in part, to a US Government embargo on PRC-made goods and PRC-supplied services.

If the PRC lost MFN, or the US Government closed the door on PRC-made goods and services, it would, to the US economy, be inflationary, in the extreme, since it would mean that US consumers would have to purchase similar goods and services, produced elsewhere, probably at much higher prices.

The knock-on effect would be felt, almost immediately, as labour demands in the US would be the natural and inevitable result.

The US could seek to tap Mexico, or some other third-world country, in order to produce the goods and services which had been lopped off when the trade door was slammed on the PRC, but that would take some time since the PRC ships billions of US dollars' worth of goods and services to the US, annually.

And, for the HKSAR, this situation would have an immediate and dramatic effect, resulting in many HKSAR companies, with factories and investments in the PRC, going to the wall, no doubt.

The bottom line: Stay out of the stock market for the time being.

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