VOLUME One No. 88 F R I D A Y September 3, 1999

PRESSURE MOUNTS TO REMOVE, OR ADJUST, THE HONGKONG DOLLAR - U.S. DOLLAR PEG

Pressure is mounting in certain quarters for the Government of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) to remove, or adjust, the Hongkong dollar - US dollar peg.

According to TARGET's usually reliable sources, it is inevitable and unavoidable that the Government of the HKSAR will have to cave in to the mounting pressure, due to pressing economic factors.

But the timing of such a move is crucial.

Also, there is the matter of the Government of the PRC, agreeing to such a move, because the renminbi would have to devalue in sympathy with any move by the HKSAR Government to adjust, or remove, the Hongkong dollar - US dollar peg.

The arguments for moving, or even removing, the goal posts of the Hongkong dollar down against the US dollar are strong, but there is an even stronger determinant factor: The promises made to the world in Beijing, at the highest level of Government, not to devalue the renminbi, at this time.

A devaluation of the Hongkong dollar would have the advantage of making the products and services, produced in the HKSAR, become cheaper on the world stage; and this could cause the HKSAR to be more competitive, especially with regard to its Asian neighbours, most of whom are offering similar services and products.

In the PRC, on the other hand, a devaluation of the renminbi would have a similar effect as one may expect from a devaluation of the Hongkong dollar, and, since, in many respects, the PRC is self sufficient with regard to quite a number of raw commodities, used in the production of exports, the added costs, with regard to paying for imported goods and services, would be offset, to a great extent, by the advantages, gained in increasing sales to the outside world of goods and services, produced in the PRC.

The PRC's most important single commodity, of course, is its huge and well-disciplined labour force.

But a free-market economy has its pluses as well as its minuses: As labour finds itself with more disposable income, it demands the ability to purchase goods of choice, rather than just goods of necessity.

That would mean, in the case of the PRC, that labour would covet foreign-made goods (as it does, today).

But if the buying power of the renminbi were diminished by a de facto (or de jure) devaluation, it would frustrate, somewhat, labour's ability to purchase goods of choice.

The Government of the PRC could counter any such offensive from labour, stating that the country must consider the long-term effect of any move that Government makes, even to the extent of sacrificing the aspirations and desires of labour, at least for the time being.

Back in the HKSAR, however, where labour has, historically, been much more vocal than in the PRC, seething unrest exists in certain quarters as it becomes apparent that fresh graduates are frustrated in meeting their expectations as adults, entering the workplace.

Today, a fresh graduate may expect to receive a starting wage of about $HK8,000 per month.

This is a reduction from a few years ago, prior to the advent of the coming of the Government of the PRC, assuming sovereignty over the HKSAR, when a fresh graduate could have expected to receive as much as double that amount of money.

The fresh graduate, armed with a 'sheepskin' from a university, no doubt had been dreaming of having a stable income, sufficient to allow him, or her, to purchase a flat of choice in accordance with the graduate's standing in his community.

Today, the cost of a flat, not the most luxurious, ranges from between about $HK9 million and $HK1.50 million.

In a quick survey as to the cost of purchasing a flat, taken at random, directly from the Chinese Press, some of the flats, being new, and some, old, this appears to be to open-market going rates:

Area	Size (in square feet)	Cost ($HK million)
Discovery Bay, Lantau Island	700	2.20
North Point,Hongkong	1,680	6.80
The Peak, Hongkong	841	6.30
Kowloon Tong, Kowloon	1,350	6.80
Ho Man Tin	1,332	8.70
Shatin, New Territories	1,098	3.30
Central, Hongkong	1,800	8.60
Korn Hill, Hongkong	521	1.60

Looking at the cheapest flat on the above list, the one, costing $HK1.60 million and

measuring just 521 square feet, it would take a fresh graduate about 400 months, that is about 33 years, if he could afford to pay half of today's salary -- $HK4,000 - toward the cost of this flat.

And that figure, of $HK4,000 per month, is just the principal, the interest factor not being calculated at all.

If the interest factor were to be included, the one could, reasonably, expect to double the time required to pay in full for the flat: About 66 years.

Clearly, the fresh graduate would never be able to afford to purchase his own flat in the HKSAR at a salary of $HK8,000 per month, today's going rate.

It is generally held that the open-market value of real estate is the backbone of an economy since supply-demand factors determine what the open-market value of bricks and mortar must be at any given time in a specific area.

However, in the case of a fresh graduate in the HKSAR, his plans for the future are dashed, immediately, on realizing the reality of the economic situation in his home 'country'.

Unless the cost of purchasing a flat in the HKSAR is reduced to what is considered a reasonable level, then HKSAR new graduates will not be able to afford to purchase their own homes, thus frustrating their efforts at independence and crushing former aspirations of rising to higher stations in life.

The HKSAR Government, therefore, it would appear evident, needs to inject an element into the economy in order to permit improvements for the man-in-the-street; and, also, it needs to allay any/all fears and considerations which the labour force has grave concern.

Definitive action is required to be taken, quickly, TARGET has been told by highly placed sources.

In order to stimulate the economy and, thus increase disposable income in the marketplace, a de facto devaluation of the Hongkong dollar could be an immediate amelioration.

Since the Linked Exchange Rate System - as it has become known - was first introduced on October 17, 1983, fixing the US dollar rate at $HK7.80, the successive Governments of Hongkong have not tickled, or sought to influence, the peg.

In foreign exchange markets, the exchange rate of the Hongkong dollar is determined by the forces of supply and demand.

That being the case, it is unlikely that foreign investors would be duly concerned that, if the Government of the HKSAR can devalue once, it can devalue twice, or thrice.

All the efforts of the HKSAR Government to create new jobs will take at least 2 years to materialize and, in the interim, labour must be placated in order to guarantee stability in the HKSAR economy.

-- E N D --