

My Hong Kong Wish List for 1997

BY SIN-MING SHAW

TOP OF MY 1997 six-point Wish List is for Hong Kong to seek full economic partnership with China instead of deluding itself by pursuing the "high degree of autonomy" promised in the post-handover Basic Law. Because Hong Kong's 1995 GDP was 24 percent of China's and because its foreign exchange reserves of \$62.2 billion at June 1996 were 72 percent of China's \$86.6 billion, many local residents and pundits think China will adopt a hands-off policy toward Hong Kong. But this lacks common sense.

It is precisely because the territory is such an important part of the expanded Chinese economy that Beijing will not leave it alone. At the same time, Hong Kong's economy depends on China as a manufacturing base as well as the principal source of investment income. Therefore the territory cannot go on merrily pretending it is a truly autonomous economy with China playing a marginal role. Many people seem to compare Hong Kong to an expensive Swiss watch: If China tries to tamper with the delicate mechanisms it will be wrecked. This is arrogance.

Unlike Taiwan and South Korea, Hong Kong has no sophisticated industries. As a trader, it has prospered from China's trade flows with the world. Recently it has become richer on a major real-estate boom propelled by negative real interest rates.

From Beijing's viewpoint, the territory's strategic importance must rank far below that of Taiwan, which has a broad, impressive technological base and significantly more foreign reserves (\$85.2 billion in June 1996). Re-unifying Taiwan has far greater symbolic and geopolitical significance for China than the takeover of Hong Kong.

Trading is the colony's traditional forte, but China is catching up fast as multinationals bypass the territory. China's improved transportation and communication



Preparing for handover: China's Major-General Liu Zhenwu visits Hong Kong

links with Taiwan will further erode Hong Kong's importance. The sooner the territory abandons its self-important attitude the better it will be for Hong Kong and China to go forward together.

China's leaders are no doubt fed up with the argument that Hong Kong should be treated preferentially. Beijing does not believe its officials couldn't administer Hong Kong as well as the departing British and, frankly,

nor do I. The territory can prosper only if Beijing is systematically involved in its economic future.

Hong Kong is still useful: The harbor is a great asset and communications are first rate, but real-estate development — the current driving force of wealth — does not impress Chinese officials. Time is running out for the territory to wise up. It will simply be a question of time before China begins to exert its influence. It would be better to take the initiative now, during the honeymoon period, than two years after the handover when I estimate China will start rewriting Hong Kong's agenda.

My second 1997 wish is for Hong Kong to abolish the currency peg with the U.S. dollar. There is abundant evidence that the local competitive position has eroded. The territory is no longer a tiger economy; it is a bloated, aging lion, a little too fat around the waist.

Ever since the local dollar was pegged in 1983, Hong Kong has experienced one of history's major bull markets in real-estate, accompanied by much higher inflation than its trading partners.

Financial analysts estimate that the local dollar has appreciated at least 30 percent in real terms since 1983. The consequences are dire. The territory's trade-and-services balance as a percentage of GDP went from a positive 12 percent in 1989 to negative 2 percent in 1995. Its much-vaunted economic growth of the past is now below 4 percent, substan-



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tially lower than the tiger economies.

What is still helping to boost the colony's exchange reserves is an increasing amount of investment income from overseas — principally from China — equivalent to 11.2 percent of 1994's GNP, up 41.2 percent year-over-year. In other words, making money is now easier outside Hong Kong.

Given the higher returns apparently available in China, it makes sense for both the private and the public sectors of Hong Kong to participate systematically in Chinese ventures. Private business is already actively pursuing that, but in the public sector the Hong Kong government's head is still deep in the sand. It prefers to invest in huge infrastructure projects, the returns on which make sense only because property prices are being propped up by negative interest rates.

Beijing will not tolerate for long two central banks managing two currencies. The merger of the Beijing and Hong Kong treasuries will be only a question of time, despite official insistence to the contrary.

My third wish is for China to announce on July 1, 1997, that it will amend its constitution and abandon communist ideology as the guiding principles of the ruling party.

Deng Xiaoping re-emerged from the political wilderness in 1978 to remake China. Since then, the country's economic record has been impressive. More relevant, at least 22 percent of China's GDP is now generated by the private sector.

I am not advocating the overthrow of the party, or its leadership, who I think have done a good job so far. But re-labeling the ruling party would resolve a number of vexing problems for China, including the absorption of Hong Kong and Taiwan, whose inhabitants have strong fears of communism.

An announcement in Beijing

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might say something like this: "From today, we will no longer use Marxism-Leninism as the guiding ideology of your country. We are patriots first, ideologues last. We, the Party, representing the collective wisdom of the nation, have decided to call ourselves the Chinese Reform Party. We will have free elections 50 years from now. Meanwhile, let us lead you to that promised land.

"As your leaders we are only interested in your welfare. Present reforms, based increasingly on privatization under our leadership, are producing good results. We must do more. If we continue along this route, in 30 years we will be among the wealthiest nations in the world.

"Our achievement will be all the greater if we can combine the strengths of Taiwan and Hong Kong in one harmonious economic bloc under our current leadership, under one country and one system."

If the Beijing leadership had the vision and confidence to say something like that, both the Hong Kong and the Taiwan stock markets would double within six months, and the domestic Chinese stock market could easily triple in a year. If elections were held immediately after the announcement, the current leaders would enjoy the biggest-ever landslide victory.

My fourth wish is that the new Special Administrative Region chief should go to work on July 1, 1997, in an open-neck shirt to mark a departure from the uncivilized colonial legacy of wearing a suit and tie in the humid Hong Kong summer.

A fifth wish is for Filipino maids to be allowed to continue working in Hong Kong. My private poll tells me more people would flee Hong Kong if the maids went than if the press was muzzled. And finally, Hong Kong should adopt China's lower tariffs on imported wines — so that we can all afford to drink decent vintages. ■



A change of politics could triple Shanghai's stock market