Economic benefits are not one way traffic
David Lan (13-10-2003)

The recently introduced series of administrative economic initiatives which seemed to be well planned and properly coordinated have been making a positive impact on Hong Kong's economy. As the process of launching these initiatives has been swift and decisive, the initial good positive impact could be felt easily by HK people, particularly when they came at a time when Hong Kong was in the midst of a depressing mood caused by a record high unemployment rate, deflation, budget deficit and the negative effect from the aftermath of SARS. Many people, therefore, have described the economic initiatives as a gift by the Central Government designed solely to benefit the HKSAR's economy.

Despite the misconception, never have I heard on one single occasion that such was the true intention when each of the economic initiatives was announced or discussed by Central Government officials. When the New Century Forum led a team of its members on a Beijing tour recently, we called on Central Government Officials, including State Councillor Mr. Tang Jiaxuan, Ms. Liu Yandong, Vice Chairperson of CPPCC and Mr. Xu Ze, Deputy Director of the Hong Kong and Macau Affairs Office of the State Council and others. The subject was touched upon in the discussions, Beijing officials have all along been stating the important element of mutual benefit to both the Mainland and Hong Kong in the package of economic initiatives. There was also a clear message that Hong Kong people in supporting the SAR government should all work hard together for a better economic future of Hong Kong. The discussions and frank exchange of views from both sides have been very useful and reassuring, and all our delegation members were pleased with the visit and discussions.

At this point let us examine more closely one of the much talked about economic initiatives -- on the removal of restrictions for mainlanders coming to Hong Kong as individual tourists. According to Professor Chan Yan Chong from the City University, a member of New Century Forum, some 3 million additional "individual tourists" (on top of the over 6 million who come in groups) from China will come to spend money in Hong Kong every year. He further assumed that these "individual tourists" will spend as much as they could because they must have been requested by numerous next of kins at home to help the latter to purchase genuine branded products from watches, jewelleries, cosmetics, cameras, medicine to garments with known brandnames, all tax-free in Hong Kong. Furthermore, the permissible cash limit each mainlander can bring to Hong Kong has just been raised from US$2000 to US$5000. This means that the total spending by these 3 million mainlanders per annum could be HK$117 billion. Multiply this figure by a factor of 5, the total economic benefit would be HK$ 585 billion, nearly half of Hong Kong's total GDP for 2002. Even if we reduce Professor Chan's estimate by half, the added new economic benefit to Hong Kong is still sizable.

If Hong Kong handles the influx properly, it is not surprising that these "individual tourists" will visit Hong Kong for at least the next 10 or more years, creating jobs at the right levels to help absorb the currently unemployed. The breathing space would also enable government and Hong Kong people to work out proper plans and practical strategies to handle our economic restructuring, deflation, cutting costs on public expenditure, budget deficit and etc.

Many people argued that the policy on "individual tourists" is a deliberate and probably one way traffic to benefit solely Hong Kong's economic recovery. If we could broaden our view slightly, we can interpret this to be a move by the Mainland Authority to merely redress the current situation somewhat. Hong Kong people over the past decades, and they still do in large numbers, have been visiting the Mainland on business and pleasure. From now on, we have a two-way traffic - a very healthy development. Let us also not forget that since the past few years, and recently in particular, there has been tremendous pressure built up from US, Europe and Japan for the revaluation upwards of the RMB. At the G7 Finance Minister Meeting held in Feb this year, Japan's former Finance Minister Masajuro Shiokowa proposed a motion similar to the 1985 Plaza Accord meant for revaluation of the Yen-this time round for revaluation upward of RMB. He advocated that Japan's deflation was brought about by the large amount of cheap imports from China which has been exporting deflation and therefore recession to Japan and to the rest of the world. Similar proposals for revaluation upward of RMB were made by the US at the May 2003 G8 Finance Minister Meeting and by senior officials of EC, US and Japan on various occasions in recent months.

In opposing RMB's peg to the dollar (currently at 8.28 to US$1), Mr. Shiokowa who had been trying hard to stop the Japanese Yen, traded within the range 115-120 per US dollar, from appreciating through government intervention said, "I would like to tell China to get the Yuan (RMB) float according to market principles" According to media reports Japan spent a record 9 trillion Yen (US$77.1 billion) intervening in the foreign exchange market in the first 7months of 2003 in an attempt to stop the Yen going above 115 to the dollar. US Treasury Secretary John Snow before his Beijing trip also called for currency rates to be determined by markets. On 2nd September Secretary John Snow flew from Tokyo to Beijing to conduct talks with Premier Wen Jiabao and Central Bank Governor Zhou on the subject of RMB.

Labour cost is actually far lower in Indonesia, Philippines and many other countries in Africa, but China provides a politically stable and safe working environment and the quality of goods produced in China is reliable and good. There is also the huge China market which is always attractive to foreign investors. All these explain why China has been attracting the largest FDI's in absolute amounts in recent years. Such influx of foreign capital to China also adds tension to RMB's revaluation. Therefore, some spending by mainland tourists in Hong Kong helps to relieve some pressure at least on revaluation upward of RMB. Another argument we can advocate is that Hong Kong can become an effective experimental ground for the gradual release in stages in RMB exchange control. Phase I - increased spending by mainland tourists in HK as mentioned earlier. Phase II could be Financial Secretary Henry Tang's suggestion for HK to become an offshore centre for RMB financial transactions, limiting deposit service to non-mainland residents only. Perhaps phase III could be the purchasing of HK properties by mainlanders. At this point I should perhaps sidetrack a little; I have been approached by foreigners (not mainlanders) enquiring about the policy on purchase of $6.5 million worth of properties, entitling someone to become an HKSAR permanent resident. The latest announcement that the policy would be implemented in late October must be much welcomed by many foreigners.

Other economic initiatives such as greater Pearl River Delta integration, the bridge to Macau and Zhuhai and HK's Western Corridor link to Shenzhen and Closer Economic Partnership Arrangement (CEPA) can only bring mutual benefit to both HK and the Mainland. Although Hong Kong's benefit may be more prominent and noticeable, yet there is nothing wrong with that. After all, even if Hong Kong becomes a New York to China, that could only bring more benefits to the whole country. Don't forget China with its 1.3 billion population and a growing economy, consistently at 7-8% growth per annum, needs a number of fire engines to service its huge economy. Europe has London, Paris, Amsterdam, Moscow, Brussels, Berlin and many others. China has too few fire engines as its economy develops further.

We must definitely admit that the recently introduced economic initiatives can bring great and long lasting benefits to Hong Kong. We welcome this valuable breathing space and should avoid creating unnecessary problems and damaging HK's reputation like abandoning a team of mainland tourists to spending the night at the Wanchai Golden Bauhinia Square.

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