

Durham-Warwick Conference
City University

**Hong Kong's International
Status Will Slowly Decline and
Gradually Become a Local City
in China**

Leo F. Goodstadt, HKU & TCD, 29 December 2012

Mainland Rivals?

- Shanghai Mayor: foreign share “board” delayed indefinitely. (*NCNA* 16/01/12, 06/03/12)
- “Shanghai has more rivals than it originally envisaged...[28 other cities] have bragged about being either a national or regional leader in finance”. (*CD* 12/04/12)
- Wenzhou where “ self-made millionaires abound”, 90+ tycoons “disappeared, committed suicide or declared bankruptcy”, with personal debts of USD1.6 bn. (*CD* 16/11/10; *NCNA* 25/10/11)

Starring Role in PRC Economy:

- 2000: CPPCC V Chair Li Ruihan: “Without Hong Kong, China’s mainland could not access the global market ...in the past 20 years”.
- 2002: PM Zhu: Hong Kong “plays a unique, irreplaceable role in China's modernization”.
- 2009: PM Wen: “I have said years ago that [Hong Kong] is irreplaceable”.
- 2011: V PM Li: “Hong Kong has played an irreplaceable role in China's reform, opening-up and modernization”.

Hong Kong's Financial Supremacy

- “Correlation between [PRC bank] efficiency and profitability is close to zero” except in HK (IMF 2009)
- 1978-2011: US\$492bn investment from Hong Kong, 44% total FDI in Mainland (CE GIS 17/08/11)
- 1993-2011: US\$412bn Mainland IPOs launched in Hong Kong (SFST GIS 25/03/12)

Stable Economic Foundations

- SARG net assets 2011: \$1,230 bn
- Total budget reserves:
 - 2000: \$430bn 2011: \$662bn
- Months spending covered
 - 2000: 22 2011: 22
- Labour force efficiency :
 - 2002-11: Productivity rose 3.4% p.a.
 - (Singapore, 2.4; US, 1.4; Germany, 0.8)

Social Stability

- Public protests:
 - “Public order events”:
2002: 2,303 2011: 6,878:
 - “Persons prosecuted”
2002: 26 2011: 54 (*GIS 19/12/12*)
- Industrial harmony:
 - Total days lost thro’ strikes:
2002: 0 2011: 590
 - Average monthly earnings:
2002: \$10,000 2011: \$11,300

Erroneous Economics

- The first CE claimed recession was inevitable because “for years ... our competitiveness has gradually lagged behind that of our competitors”.
(CE, *GIS*, 07/12/98)
- This claim was false:
 - 1990: world’s 10th largest trading centre;
 - 1995: world’s 7th largest trading centre (C&SD, *A Comparison...* p. 30.)
 - 1984-97: export prices rose less than inflation overseas and locally. (Deputy CE HKMA, *GIS*, 04/12/97)

HK People are the Real Heroes

- 2003: July 1 “was a defining moment for us. In steaming temperatures, cheek by jowl, 500,000 of our residents took to the streets in a protest against the government... There were no angry scenes in the streets. No destroying of public or private property. No baton charges by police, or water cannons fired into the crowd... Hong Kong people cared enough about the future of their society - about the values that they hold dear - to take to the streets in defence of them”. (Tsang Yam-kuen *GIS* 20/09/03)

“Miracle” Growth in 2011 Context

- Per capita GDP is “the world's 100th” despite total GDP being world’s 2nd largest (Pres Hu *NCNA* 01/0711)
- Urban residents: 700 mn, disposable income, USD3,400 per cap
- Rural residents: 660 mn disposable income:, USD1,000 per cap (*CD*12/02&12/0712)

Global Crisis Fallout in PRC

Local government (LG) borrowing was PRC “equivalent of the US subprime mortgage crisis” (Cheng Siwei, former V-chair NPCSC, *CD* 17/09/11)

- 2009: LG borrowings “beyond their repayment capacity” causing immediate “systemic risks” to the financial system (BoC, *NCNA* 9/11/09)
- 2010: “Questionable” LG loans equal to 4% GDP
- 2011: To ease strain on bank reserves US\$438 bn LG borrowings “reclassified”, equivalent to:
 - 1/3rd of 2009 LG bank borrowings; or
 - 75% of original stimulus package (*CD* 15/08/11)

Future Fiscal Pressures on PRC

- 2011-15: affordable housing
 - 36 mn new units (20% of current stock)
 - cost USD770bn, funded mainly by LGFVs/bank loans
- 2012-15: highly controversial LG “stimulus packages”, e.g.:
 - Guizhou: USD572bn
 - Zhejiang: USD186bn
 - Tianjin & Chongqing: USD236bn each
 - Changsha: USD131bn

For full data and sources, see:

1. *Reluctant Regulators: How the West Created and China Survived the Global Financial Crisis* (2011)
2. *Profits, Politics and Panics: Hong Kong's Banks and the Making of a Miracle Economy, 1935-1985* (2007)
3. *Uneasy Partners: The Conflict between Public Interest and Private Profit in Hong Kong* (2009)
4. 官商同謀 — 香港公義私利的矛盾 (2011)