

Between Friends: Weathering the Economic Crisis

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More than 2,000 years ago, the Roman politician, statesman and writer Cicero made an astute observation about friendship, profound in its simplicity and universal in its application to relations between governments as well as individuals.

“Friendship makes prosperity more brilliant, and lightens adversity by dividing and sharing it,” Cicero said.

It may be something of a cold comfort to my American friends reeling from this grinding recession, but the people of Hong Kong, very close friends of the United States, empathize with the adversity you are experiencing.

Slightly tongue in cheek, I counsel my American colleagues who are understandably anxious about the economy that this is the Year of the Ox in the Chinese zodiac. The Ox is a sign of prosperity, but prosperity gained through patience and resilience. Recovery will come one day as it did for us after a dramatic economic decline in the late 1990s.

In the meantime, Hong Kong citizens share your anxiety, for we are in the same boat. The current economic crisis on your shores, a once-in-a-century kind of financial turmoil that is rippling throughout world economies and across oceans, has spread out from the financial markets leading to a synchronized global recession.

As a small open economy, Hong Kong is not impervious to the strains of the current crisis which upset an economic upswing started in late 2003. Because of sluggish overseas markets and the global crisis crunch, growth in Hong Kong’s exports of goods in 2008 only recorded an increase of two percent in real terms over 2007. Consumer sentiment has worsened visibly. The drop in asset prices and bleaker economic prospects saw private consumption expenditure grow by only 1.8 percent in 2008, also a marked slow-down from the rapid growth in the previous year. For 2008 as a whole, Hong Kong’s Gross Domestic Product (GDP) grew by 2.5 percent—much lower than the trend growth rate over the past ten years and the GDP growth rate of 6.4 percent in 2007.

Our unemployment rate has climbed to five percent lately. We anticipate a very difficult year in 2009 with a predicted negative GDP growth rate of between two percent and three percent.

For us, the present economic signals have shades of the recent past. Back in 1998, Hong Kong and its neighbors were rocked by a steep financial meltdown. The devaluation of the Thai baht started a chain reaction of devaluations across the region. What was first seen as a regional crisis rapidly spread when currency speculators attacked Hong Kong’s

long standing link with the US dollar. At one point, Hong Kong stock market shares lost half their value as other countries in the region withstood similar plunges. Likewise, Hong Kong experienced a brutally severe 50-plus percent decline in real housing prices, a condition that lasted over five years along with a sharp increase in unemployment, all of which conspired to significantly drive down our real per capita GDP.

Since the Asian financial crisis a decade ago, Hong Kong has taken steps that we hope will have the effect of blunting the current economic turmoil. We have reinforced financial markets by improving risk management of banks and creating a more transparent regulatory system. Our banking system and financial industry remain stable and healthy. To ease liquidity for businesses and bolster confidence, our Government has guaranteed bank deposits, without ceiling, and established a mechanism to provide additional capital to banks, if requested, until December 2010.

In an effort to encourage growth and job creation, we introduced a US\$ 12.8-billion loan guarantee to unfreeze credit for businesses, particularly small and medium enterprises. In addition, Hong Kong and the Mainland of China have agreed on a currency swap pact of US\$ 29 billion to provide short-term liquidity to Mainland operations of Hong Kong banks and Hong Kong operations of Mainland banks, as needed.

To tackle rising unemployment, the Hong Kong Government has increased public expenditure, introduced various programs, and fast-tracked infrastructure projects so as to create more than 120,000 jobs, training places and internships in the next three years. Public bodies and the private sector have also pledged to create thousands of short-term jobs and internships targeting fresh graduates.

In addition, we have introduced a series of other initiatives to spur growth:

- ◆ We have intensified development and global promotion of Hong Kong as a destination for “Meetings, Incentives, Conventions, and Exhibitions” (MICE). Moreover, we have waived our hotel accommodation tax since last year to entice more tourists to visit Hong Kong.
- ◆ We have waived our duty on wine since last year with a view to developing Hong Kong into a hub for wine-related business. American companies wasted no time in seizing the opportunity and have already conducted successful wine auctions in Hong Kong. The value of imported wine imports from around the world reached US\$ 370 million in 2008, representing a year-on-year increase of almost 80 percent.
- ◆ Boosting Hong Kong’s appeal as a tourist destination, Hong Kong will construct a new cruise terminal at the old Kai Tak Airport site with the first berth expected to be operational in 2013.

- ◆ We will develop a 100 acre cultural hub in West Kowloon which will feature world-class performing arts venues, a new concept museum, an exhibition center and galleries.

The Mainland Government has also introduced measures to reinforce our status as a global financial center and foster economic cooperation between Hong Kong and the Mainland, particularly the Pearl River Delta which comprises 13 cities and counties in Guangdong Province. For example, the Mainland Government pledged in early March to expedite a pilot program for Hong Kong to use Renminbi as the settlement currency for international trade with the Mainland. This will give Hong Kong an excellent opportunity to further enhance our role as an off-shore center for Renminbi business. Separately, we are making progress in establishing Hong Kong as a platform for Islamic finance.

We have a fairly long “to do” list. Then again our philosophy is that, although ranked as the world’s freest economy for the 15th consecutive year by The Heritage Foundation and *The Wall Street Journal*, there is always room for improvement.

Hong Kong and the United States have long enjoyed close ties. The strength of this relationship is illustrated by the fact that the United States tops the list of overseas countries with regional operations in Hong Kong. More than 900 US companies use Hong Kong as their regional base in Asia.

This is a strong vote of confidence in our role as Asia’s leading business hub and a reliable partner for US businesses.

On political development, we continue to make strides as the elections of the Chief Executive in 2017 and all members of the Legislative Council in 2020 may be returned by universal suffrage.

With a timetable set, our Government is tasked with amending the electoral methods for the Chief Executive and Legislative Council in 2012 with the aim of laying a foundation for attaining universal suffrage as prescribed by the Basic Law. We will consult the public in this regard in the last quarter of 2009.

Among the many things our two peoples share in common is a belief in the promise of the future and that the best is yet to come.