

Economic Prospects for the Mainland and Hong Kong

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Outline

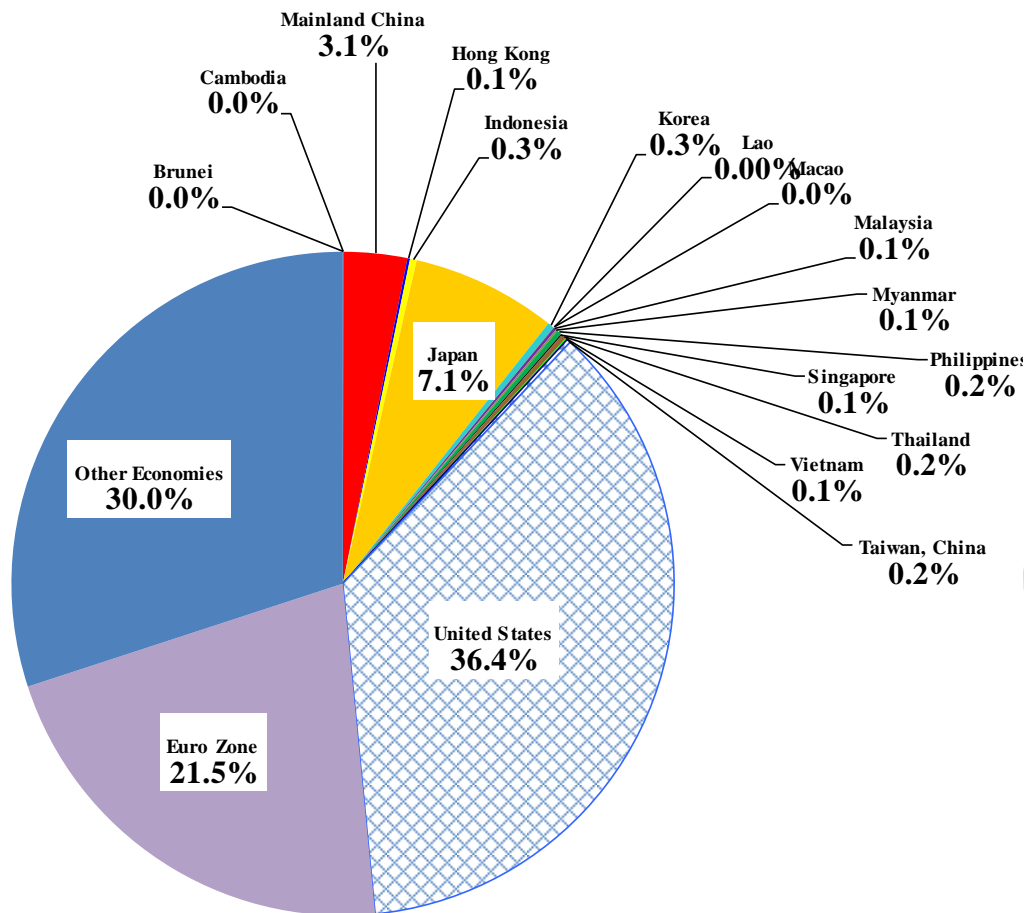
- ◆ A Review of Global and Chinese Economic Trends
- ◆ The Hong Kong Economy at a Turning Point
- ◆ The Belt and Road (B&R) Initiative
- ◆ The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) Initiative
- ◆ The Nineteenth National Congress of the Communist Party of China
- ◆ Projections of the Future of the Mainland Economy
- ◆ The Future of the Hong Kong Economy
- ◆ Concluding Remarks

A Review of Global and Chinese Economic Trends

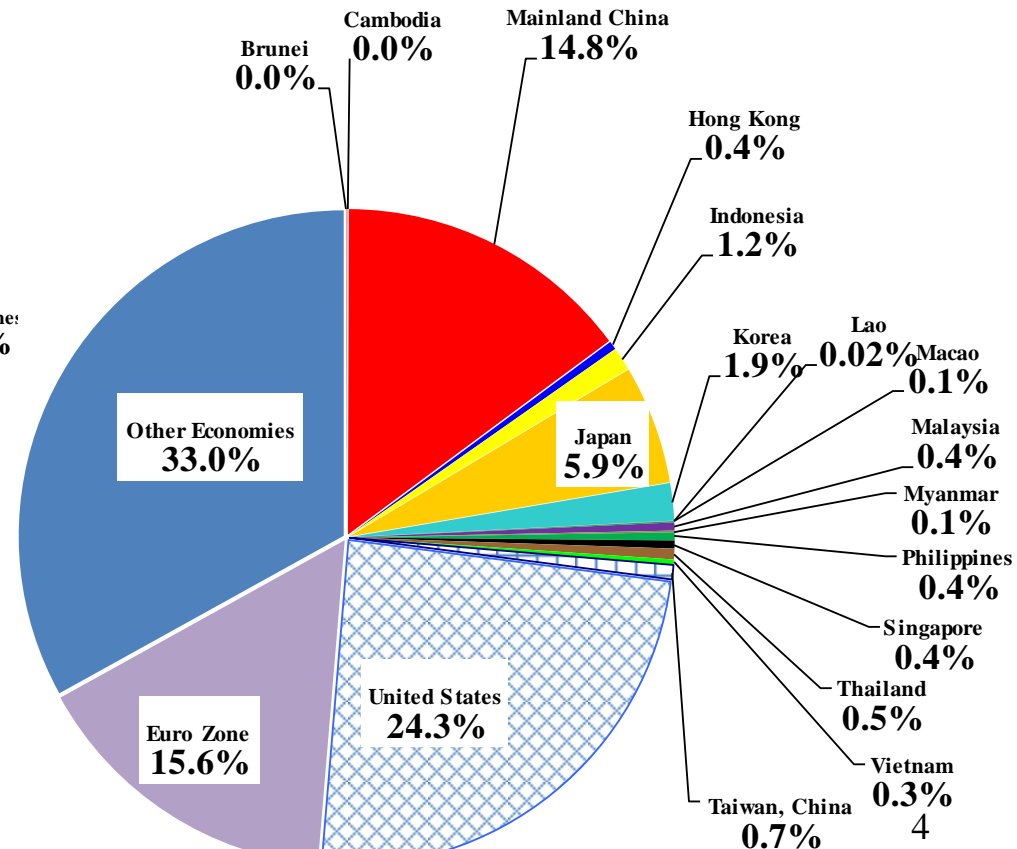
- ◆ The shifting center of gravity of the world economy
- ◆ Historically unprecedented rapid growth of the Mainland economy
- ◆ Slowdown of the growth of world real GDP, trade and direct investment
- ◆ The transition of the Mainland economy to a new normal
- ◆ The stabilization of the Renminbi exchange rate
- ◆ Geopolitical uncertainties

The Distribution of World GDP, 1970 and 2015, US\$

1970

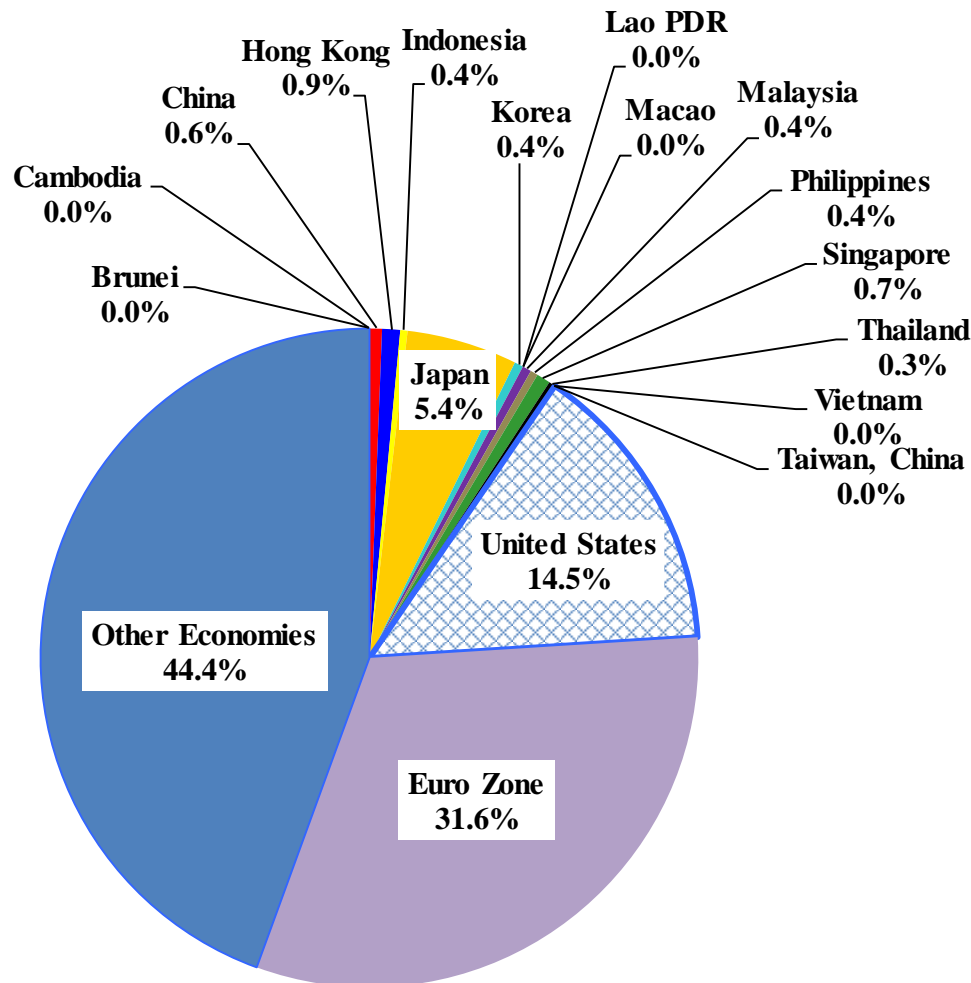


2015

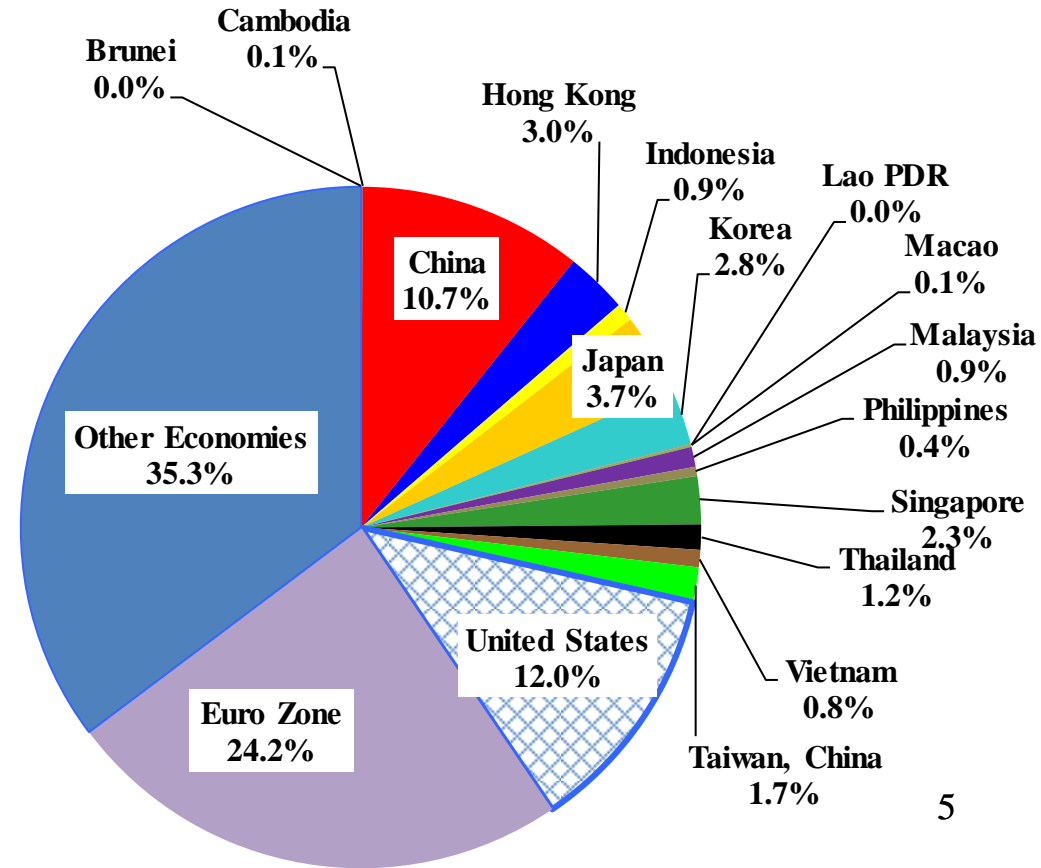


The Distribution of International Trade in Goods and Services, 1970 and 2015

1970

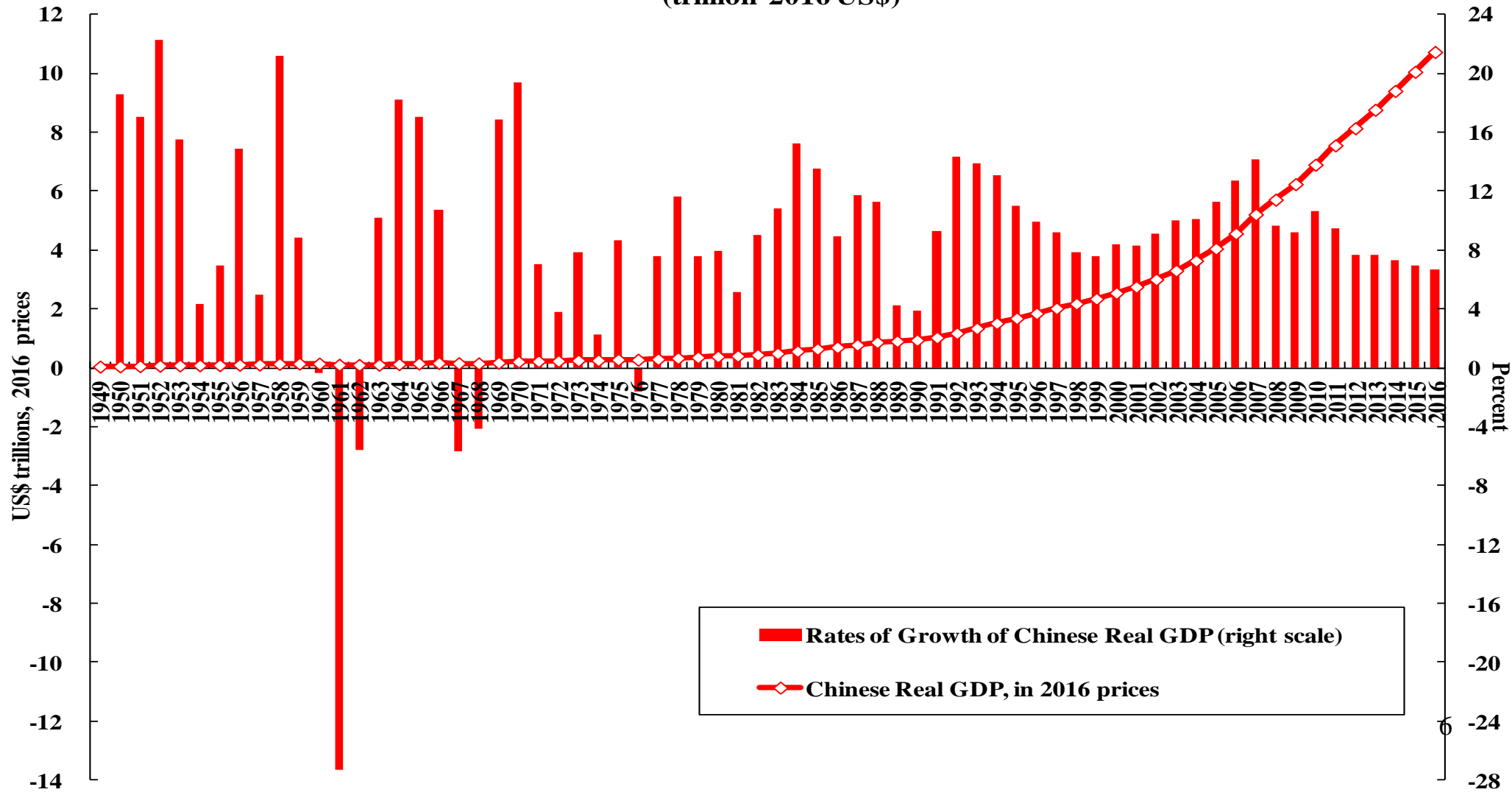


2015



Historically Unprecedented Rates of Growth

Chinese Real GDP and Its Rates of Growth since 1949
(trillion 2016 US\$)

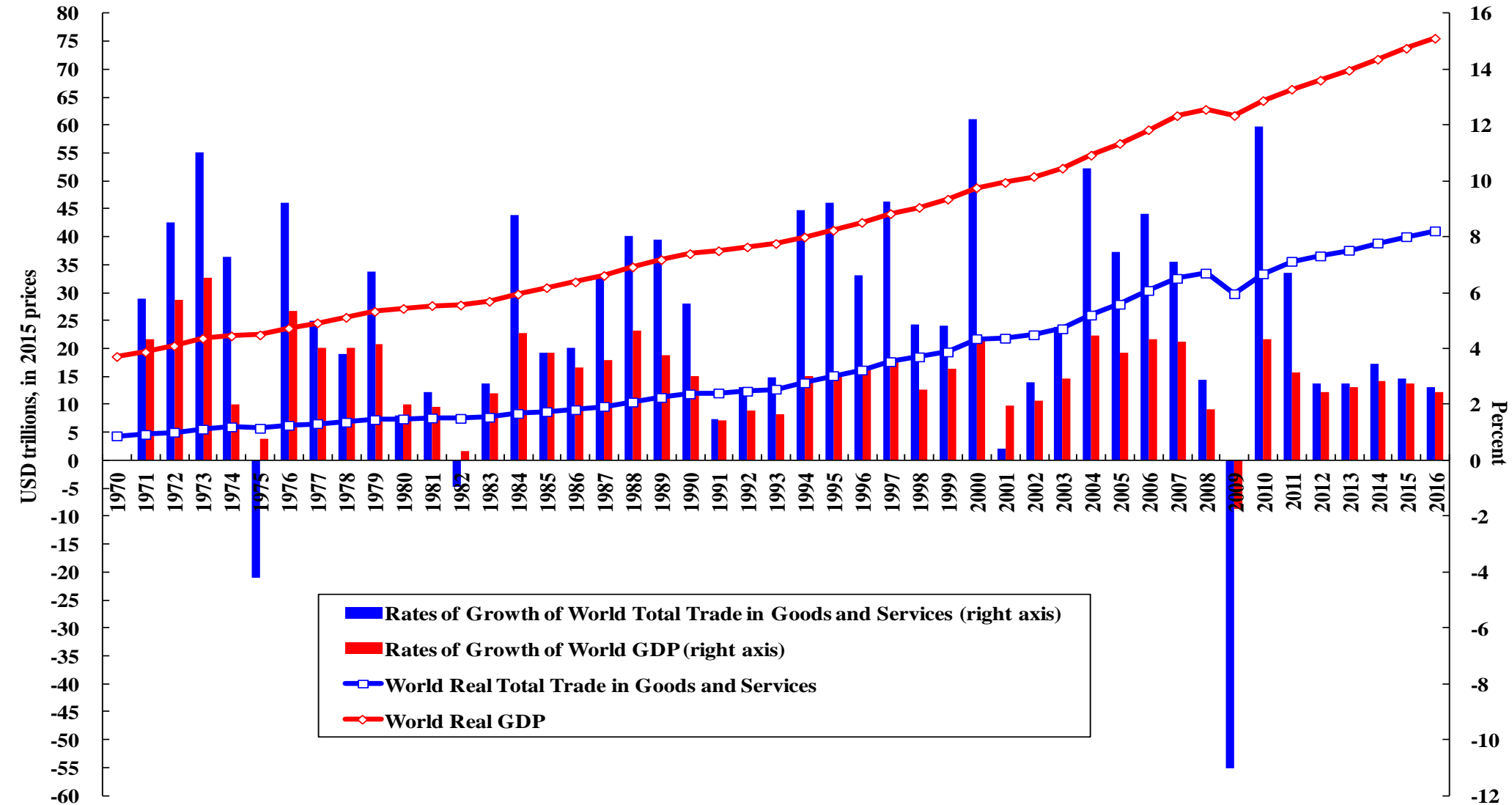


Slowdown of the Growth of World real GDP, Trade and Direct Investment

- ◆ The rates of growth of the real GDP and real total trade of the world has slowed down significantly since 2012. Even though the International Monetary Fund recently raised its projected rates of global growth to 3.6% in 2017 and 3.7% in 2018, up from 3.2% in 2016, it is unlikely that the world economy would resume its heady rates of growth in GDP and trade that it achieved prior to the global financial crisis of 2008.
- ◆ Cross-border trade and direct investment are no longer the major drivers of world economic growth.
- ◆ Protectionism, isolationism and populism are rearing their heads and the entire world faces the risks of trade wars and economic de-globalization.

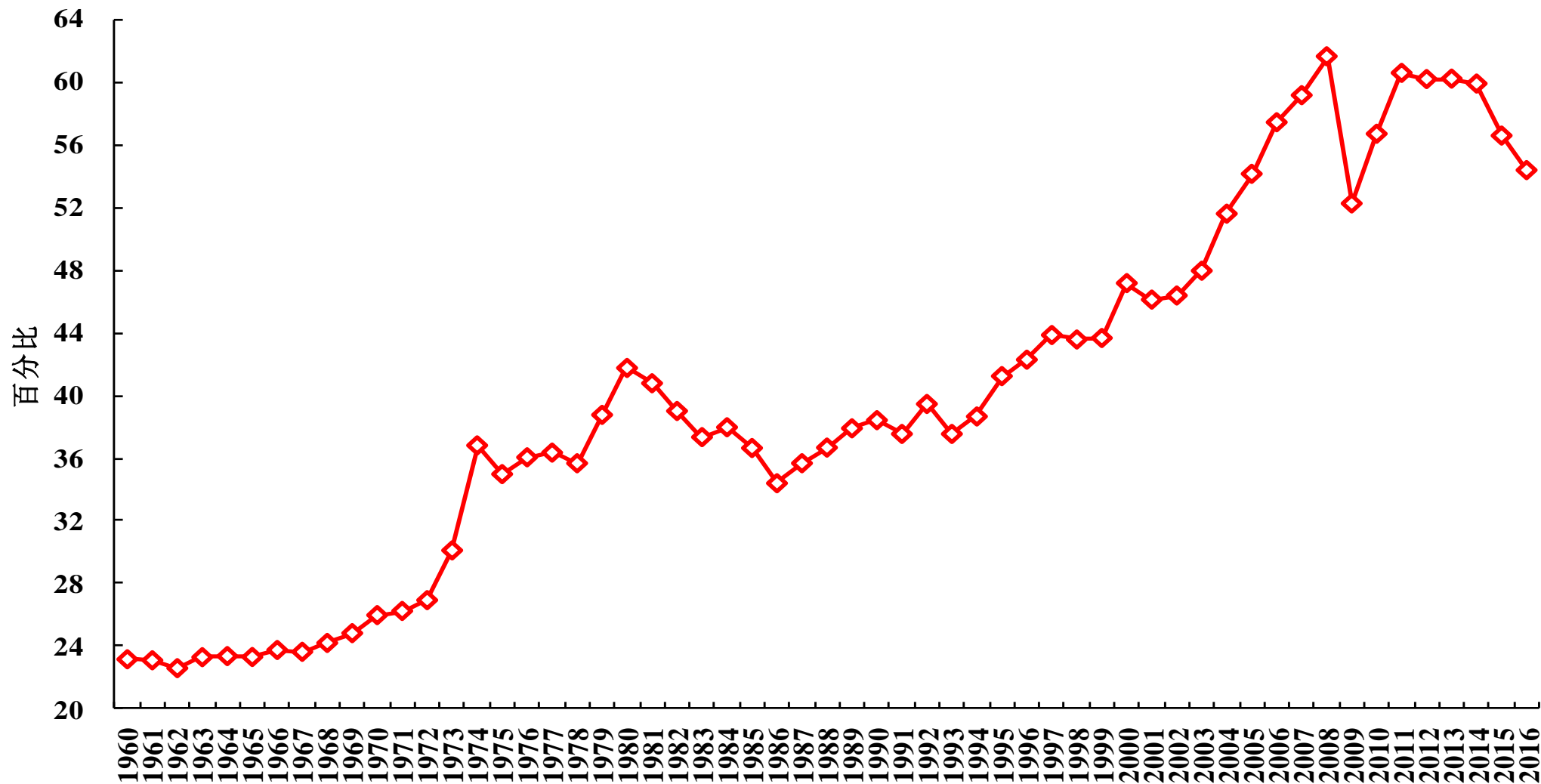
Real World GDP and Trade in Goods and Services and Their Growth Rates (2016 prices)

World Real GDP and Real Total Trade and Their Growth Rates, in 2016 prices



Total World Trade in Goods and Services as a Percentage of World GDP since 1960

Total World Trade in Goods and Services as a Percentage of World GDP since 1960

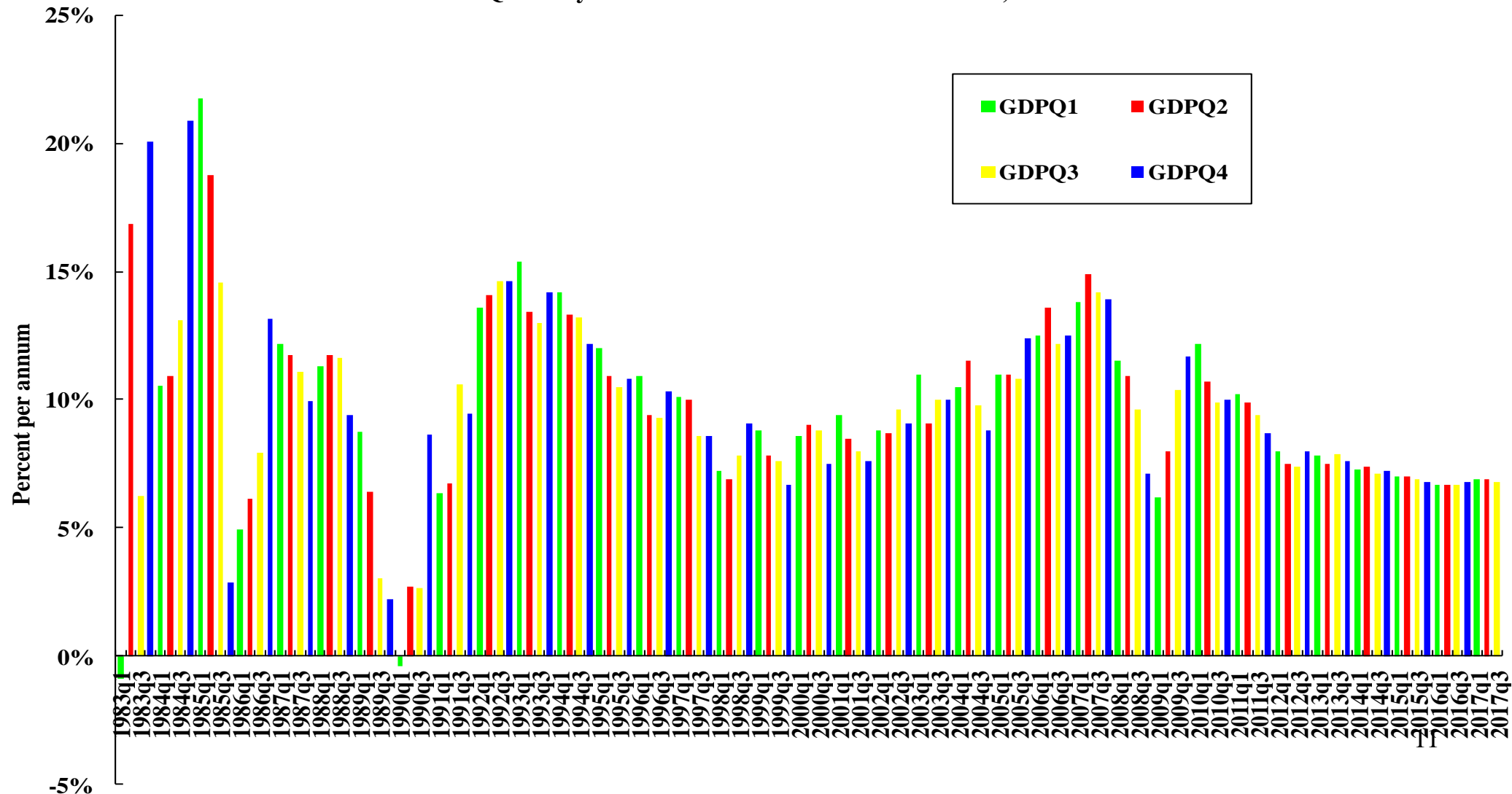


The Transition of the Mainland Economy to a New Normal

- ◆ The Mainland economy has transitioned to a “new normal”, with a rate of growth stabilized around 6.5%. It no longer relies on export growth, but has shifted towards internal demand as the principal economic driver.
- ◆ However, the national saving rate remains high. But because of the on-going supply side structural reform and the serious excess production capacities in many industries, the rate of growth of fixed assets investment has been declining, resulting in significant excess domestic savings which need to be deployed abroad.
- ◆ Today, foreign direct investment (FDI) into the Mainland constitutes only approximately 2.5% of total gross domestic investment on the Mainland and is quantitatively no longer important.

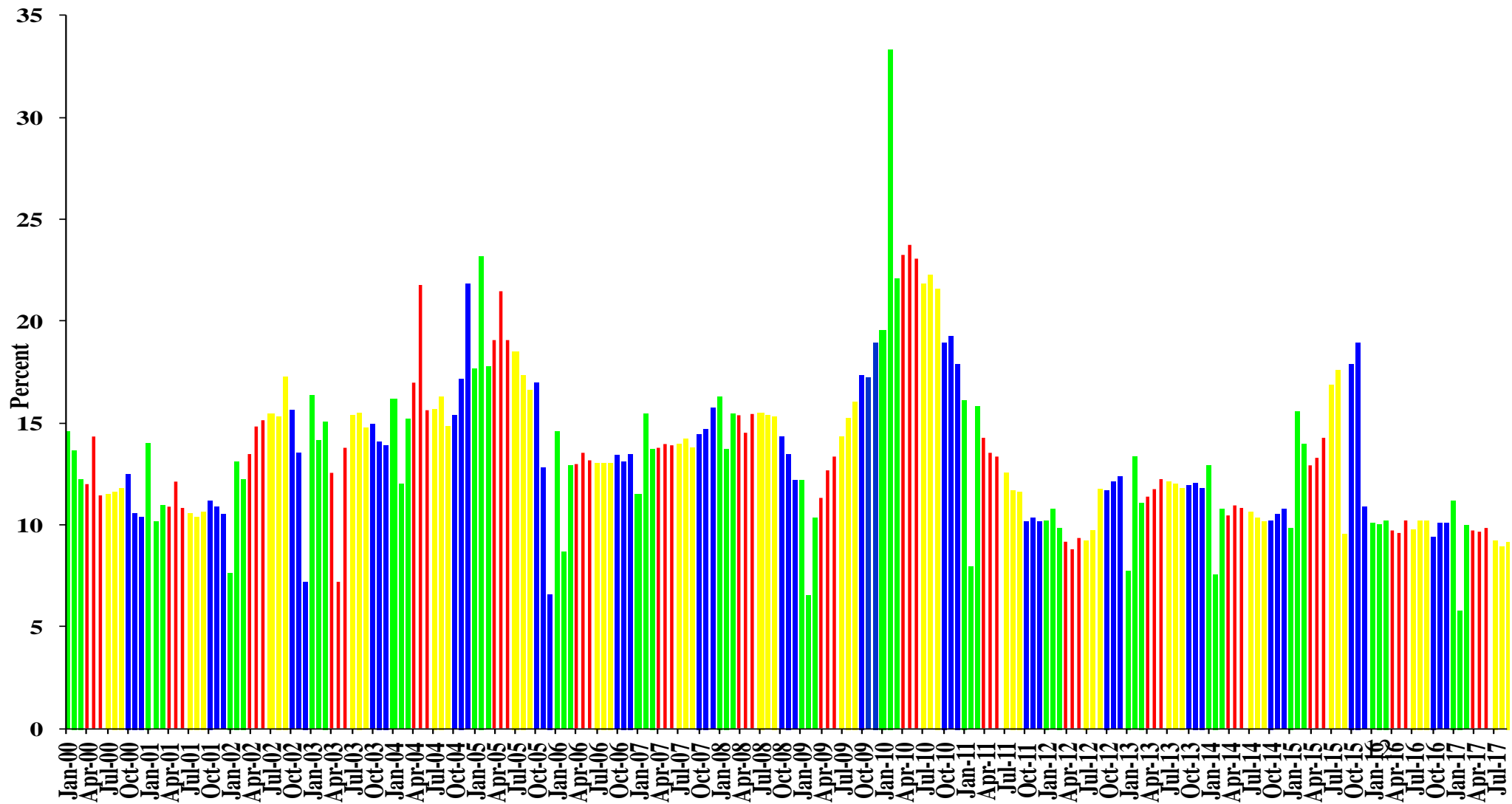
Quarterly Rates of Growth of Chinese Real GDP, Y-o-Y

Quarterly Rates of Growth of Chinese Real GDP, Y-o-Y



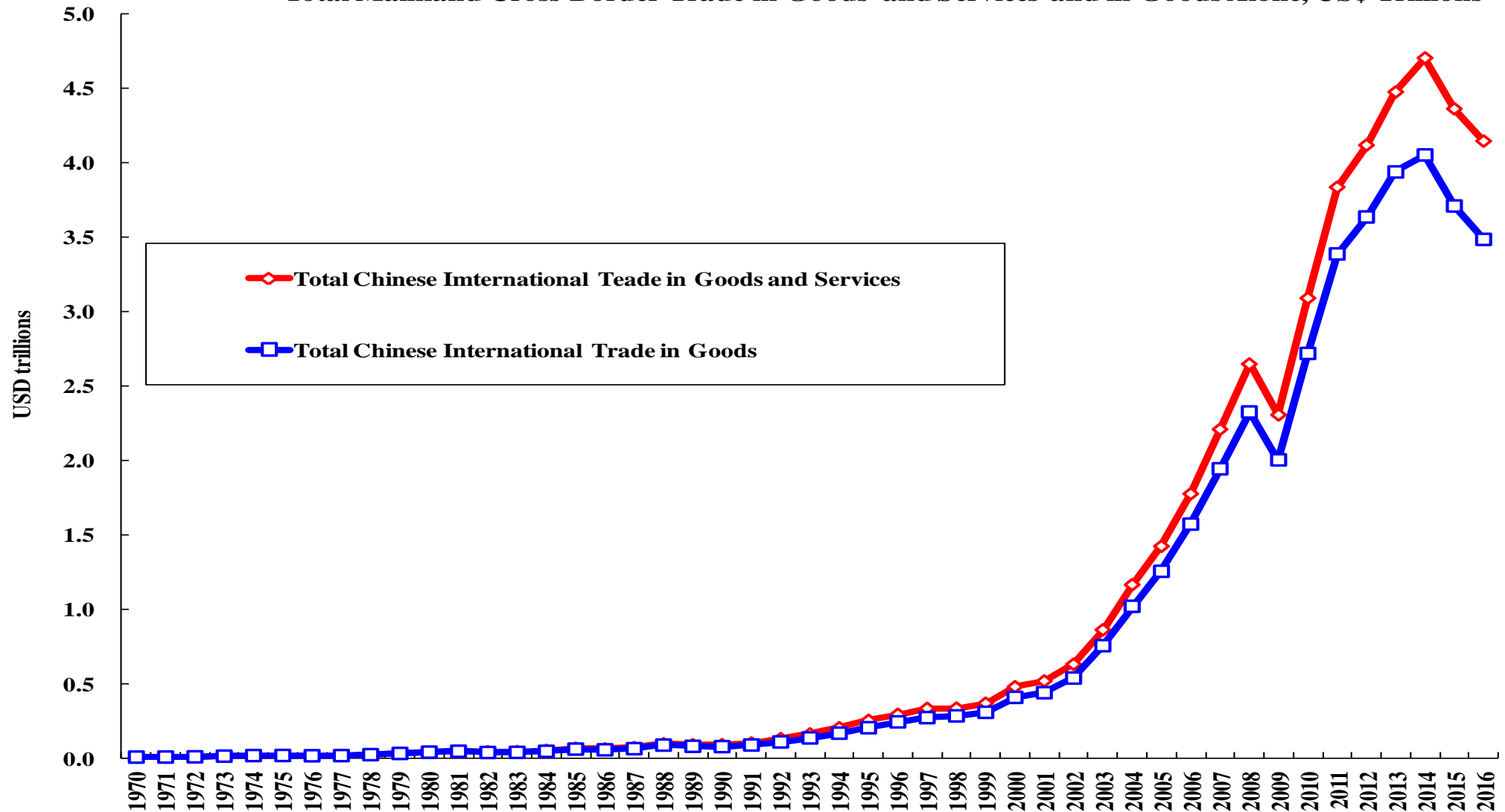
Monthly Rates of Growth of Chinese Real Retail Sales, Y-o-Y

Monthly Rates of Growth of Chinese Real Retail Sales since, Year-over-Year



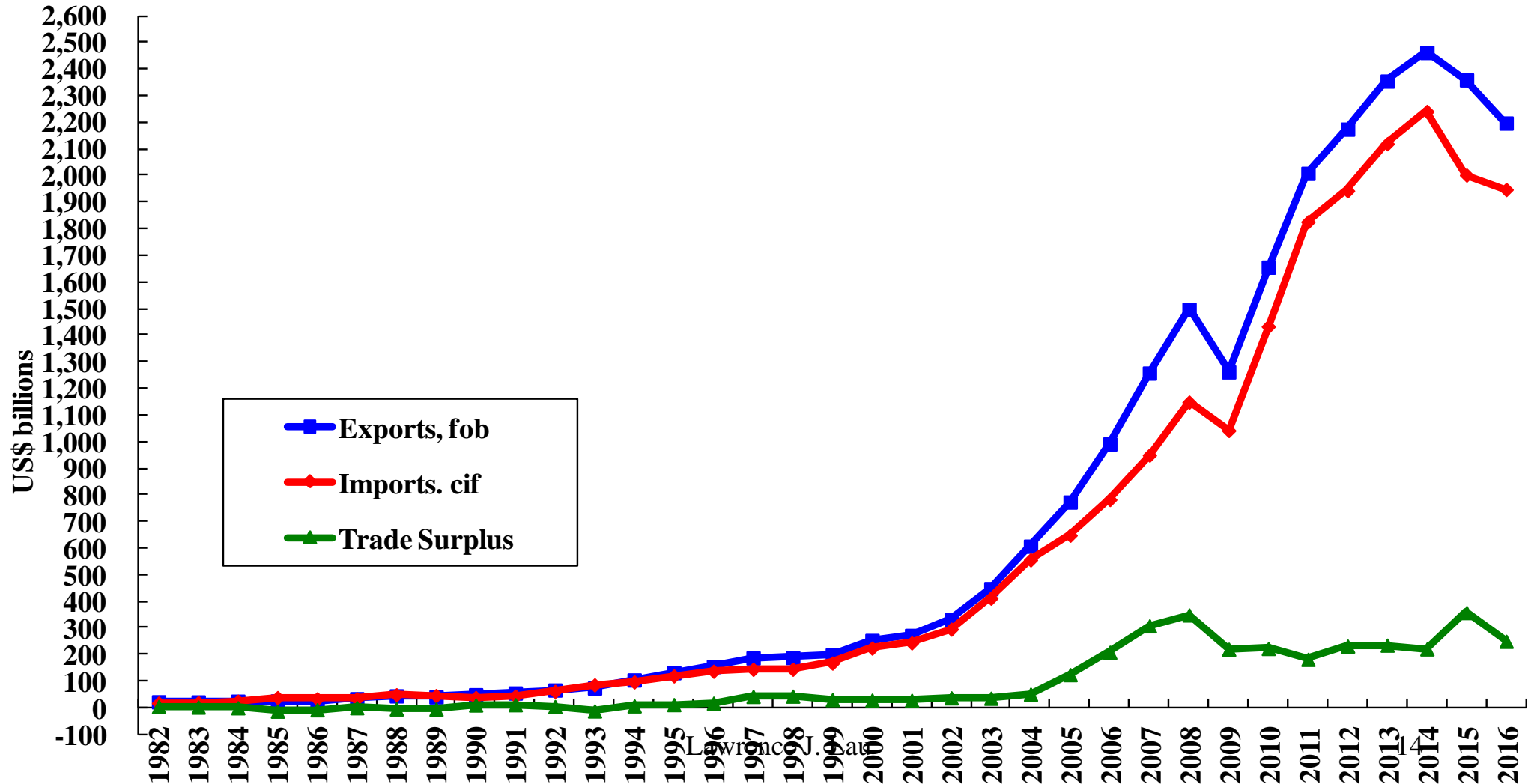
Total Mainland Cross-Border Trade in Goods and Services and in Goods Alone, US\$ trillions

Total Mainland Cross-Border Trade in Goods and Services and in Goods Alone, US\$ Trillions



Annual Chinese Exports, Imports and Trade Balance of Goods and Services

Annual Chinese Exports, Imports and Trade Balance of Goods and Services, in US\$ Billion

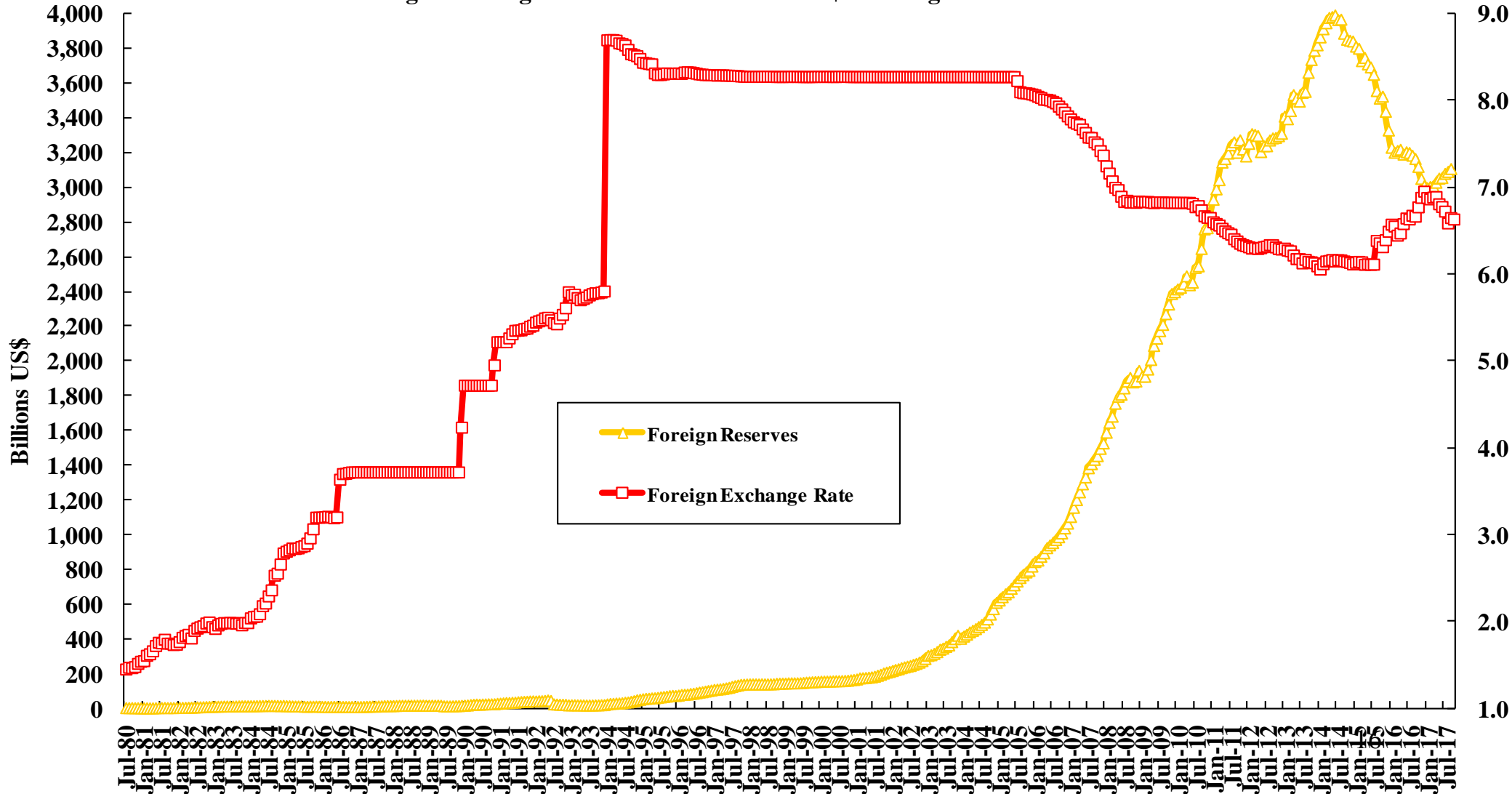


The Stabilization of the Renminbi Exchange Rate

- ◆ The stabilization of the Renminbi exchange rate
- ◆ The stabilization of the official foreign exchange reserves
- ◆ The China Foreign Exchange Trade System (CFETS) trade-weighted currency basket index

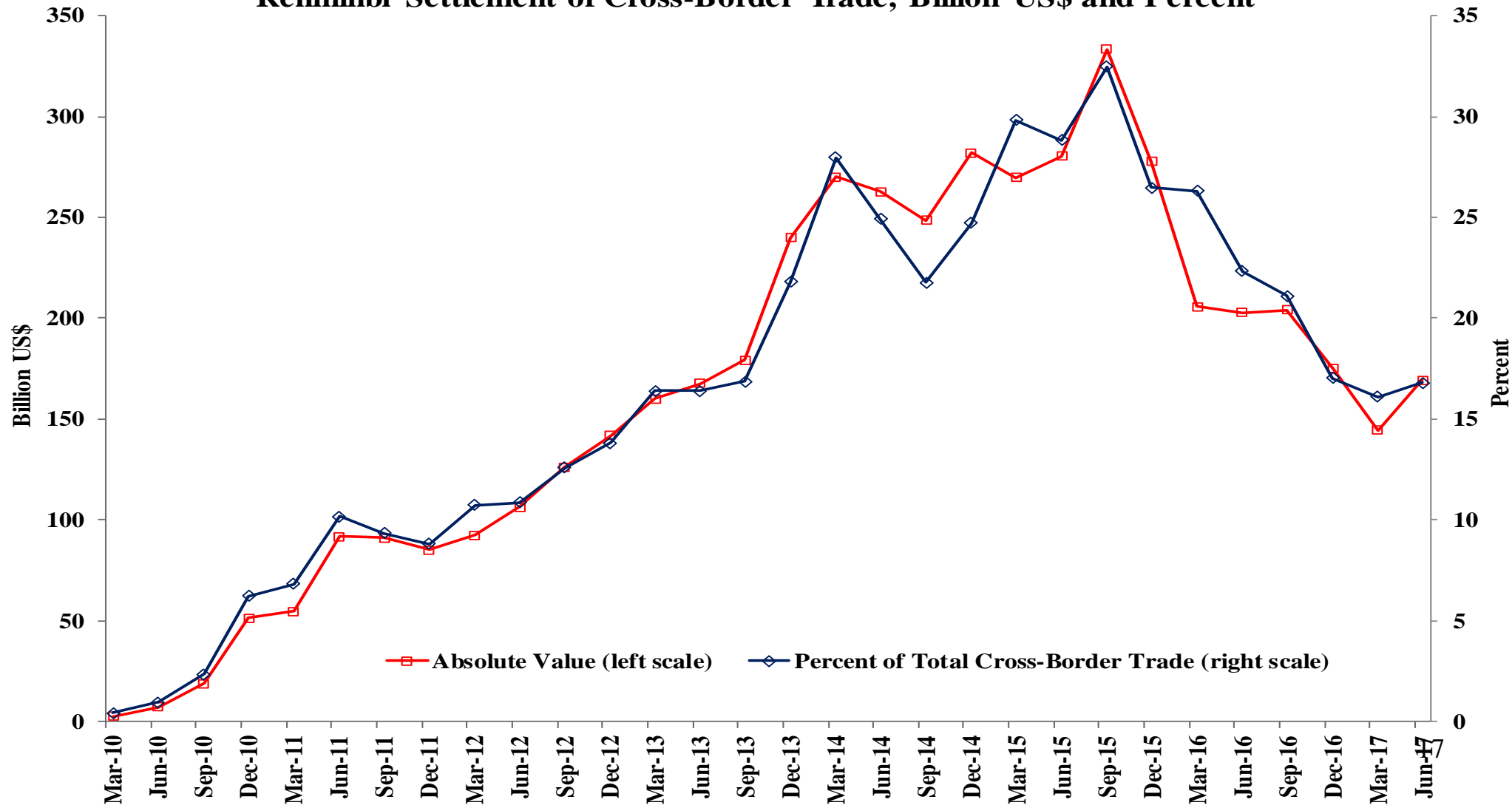
Chinese Foreign Exchange Reserves and the Yuan/US\$ Exchange Rates at End of Month

Chinese Foreign Exchange Reserves and the Yuan/US\$ Exchange Rate at the End of the Month



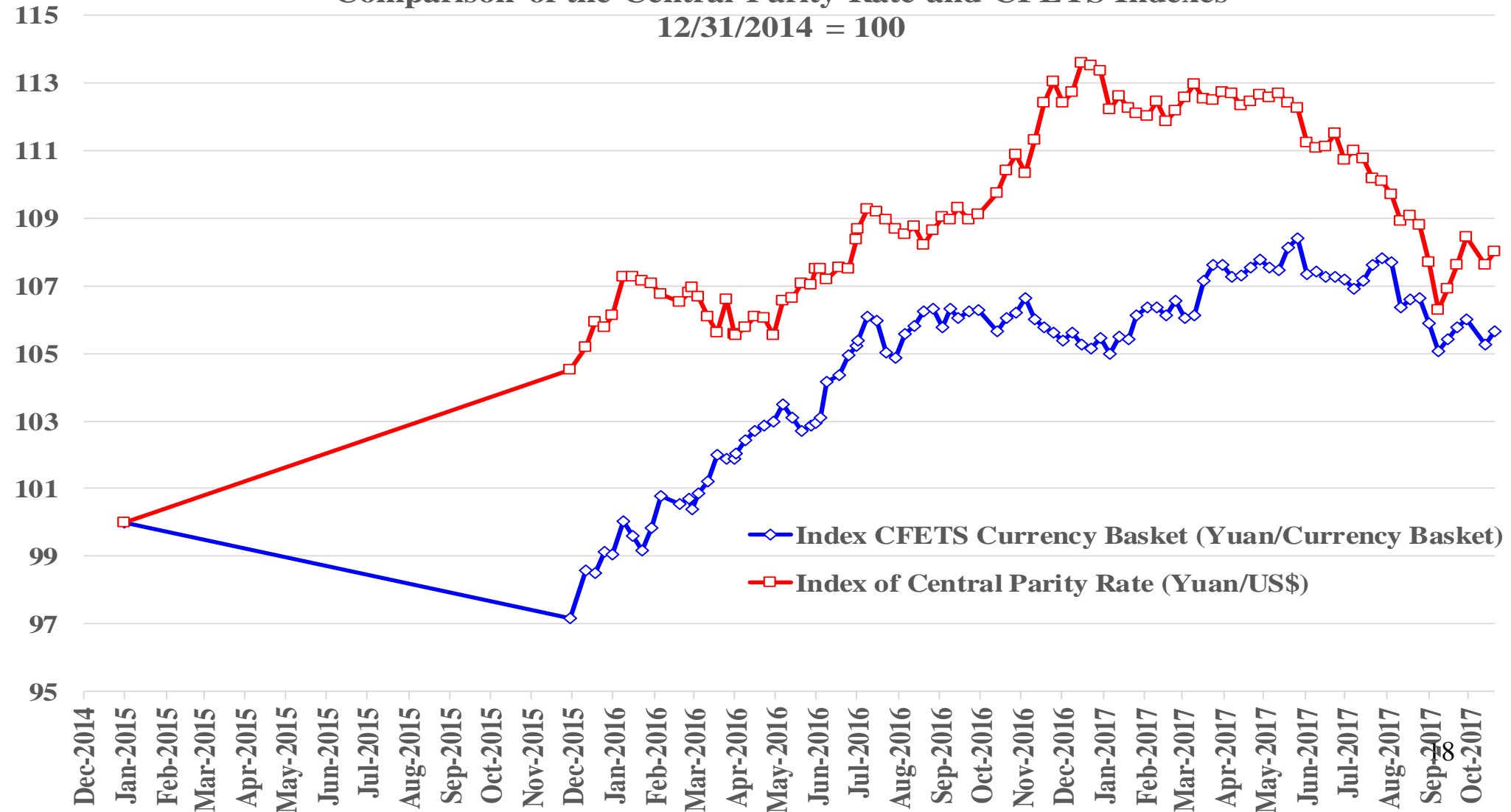
Renminbi Settlement of Chinese Cross-Border Trade, Billion US\$ and Percent

Renminbi Settlement of Cross-Border Trade, Billion US\$ and Percent



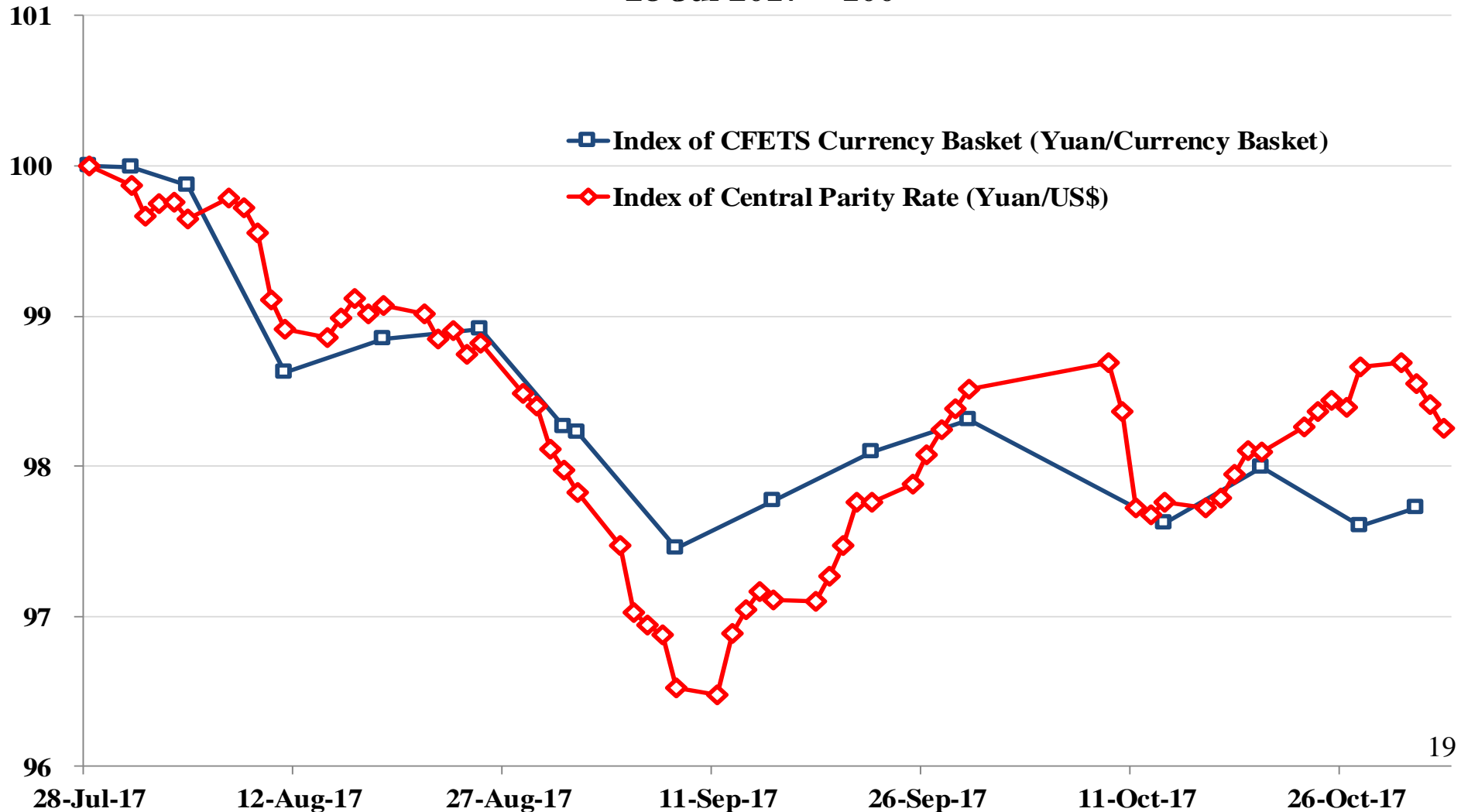
Comparison of the Central Parity Rate and CFETS Indexes (31 Dec. 2014 = 100)

Comparison of the Central Parity Rate and CFETS Indexes
12/31/2014 = 100



Comparison of the Central Parity Rate and CFETS Indices (28 Jul 2017=100)

Comparison of the Central Parity Rate and CFETS Indices
28 Jul 2017 = 100

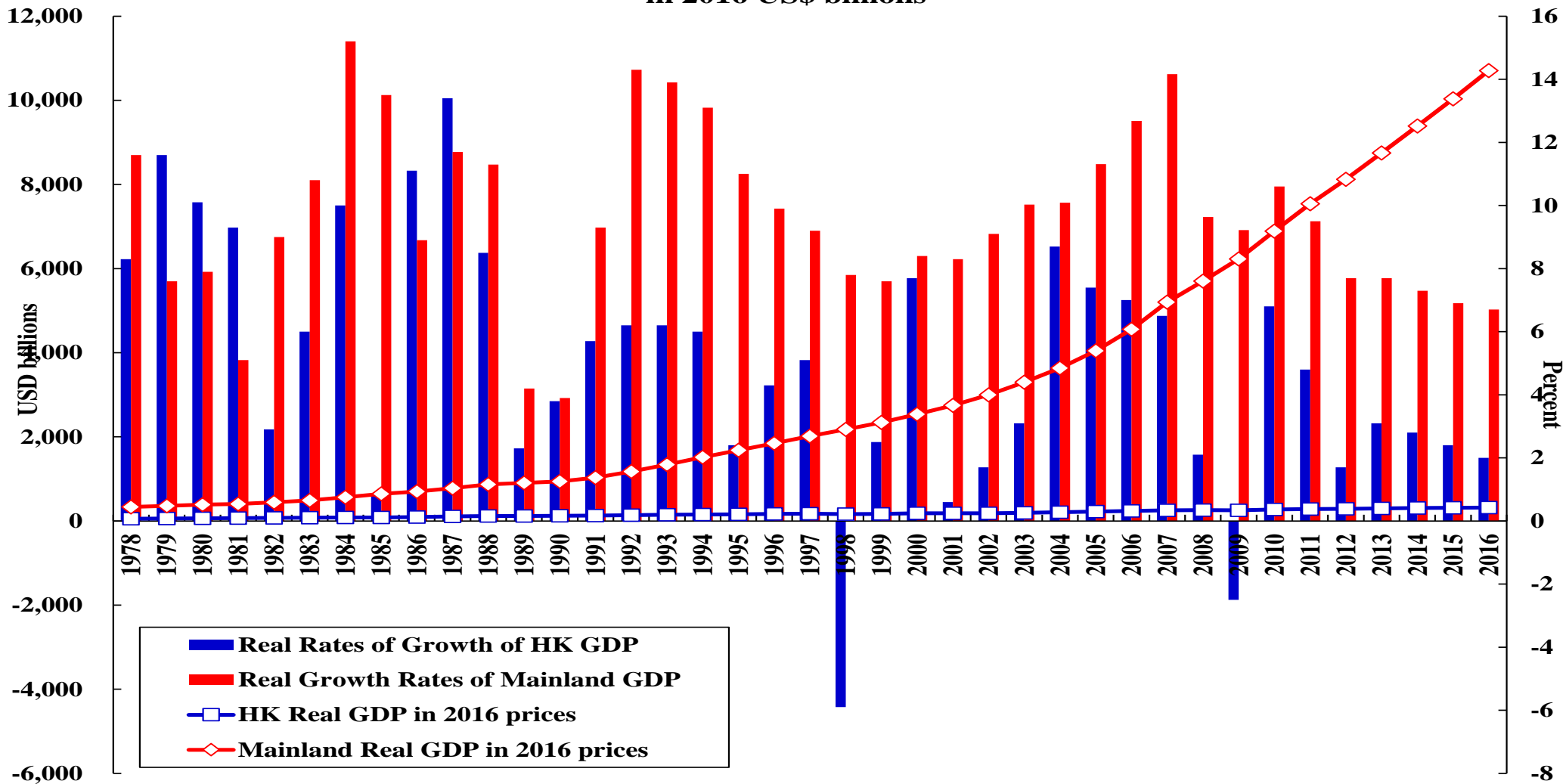


The Hong Kong Economy at a Turning Point

- ◆ It is useful to compare the economies of Hong Kong and the Mainland over time. Huge changes have occurred since 1978 when the Mainland began its economic reform and opened its economy to the world.
- ◆ The relative economic sizes of Hong Kong and the Mainland have changed significantly. In 1978, the real GDP (2016 prices) of Hong Kong was almost one-sixth that of the Mainland (US\$52 billion versus US\$333 billion). In 2016, the real GDP of Hong Kong was only 3 percent of that of the Mainland (US\$321 billion versus US\$10.7 trillion).
- ◆ The real GDP per capita of Hong Kong was almost 33 times that of the Mainland in 1978 and still 5.6 times in 2016 (US\$43,788 versus US\$7,758).
- ◆ Since 1991, the rates of growth of Mainland real GDP and real GDP per capita have exceeded those of Hong Kong in every single year, often by large margins. The respective Mainland rates average 9.8% and 9.0% annually over this period, compared to Hong Kong's 3.7% and 2.6%.
- ◆ Even then, it will probably take another half-a-century before the level of Mainland real GDP per capita exceeds that of Hong Kong.

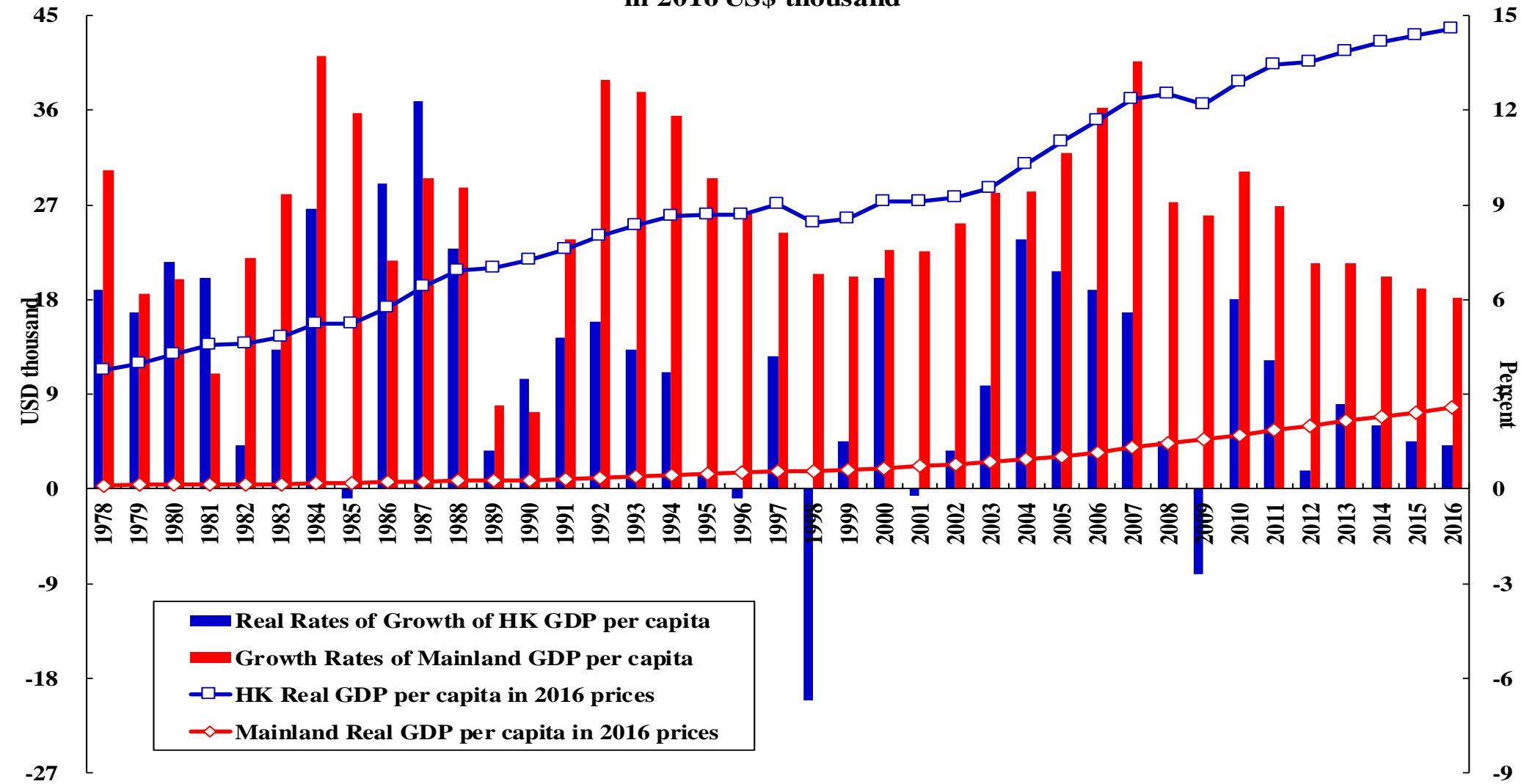
Mainland and Hong Kong Real GDPs and Their Rate of Growth (billion 2016 US\$)

Real GDP of the Mainland and Hong Kong and Their Growth Rates, in 2016 US\$ billions



Mainland and Hong Kong Real GDPs per Cap. and Their Rates of Growth (thou. 2016 US\$)

Real GDP Per Capita of the Mainland and Hong Kong and Their Growth Rates, in 2016 US\$ thousand

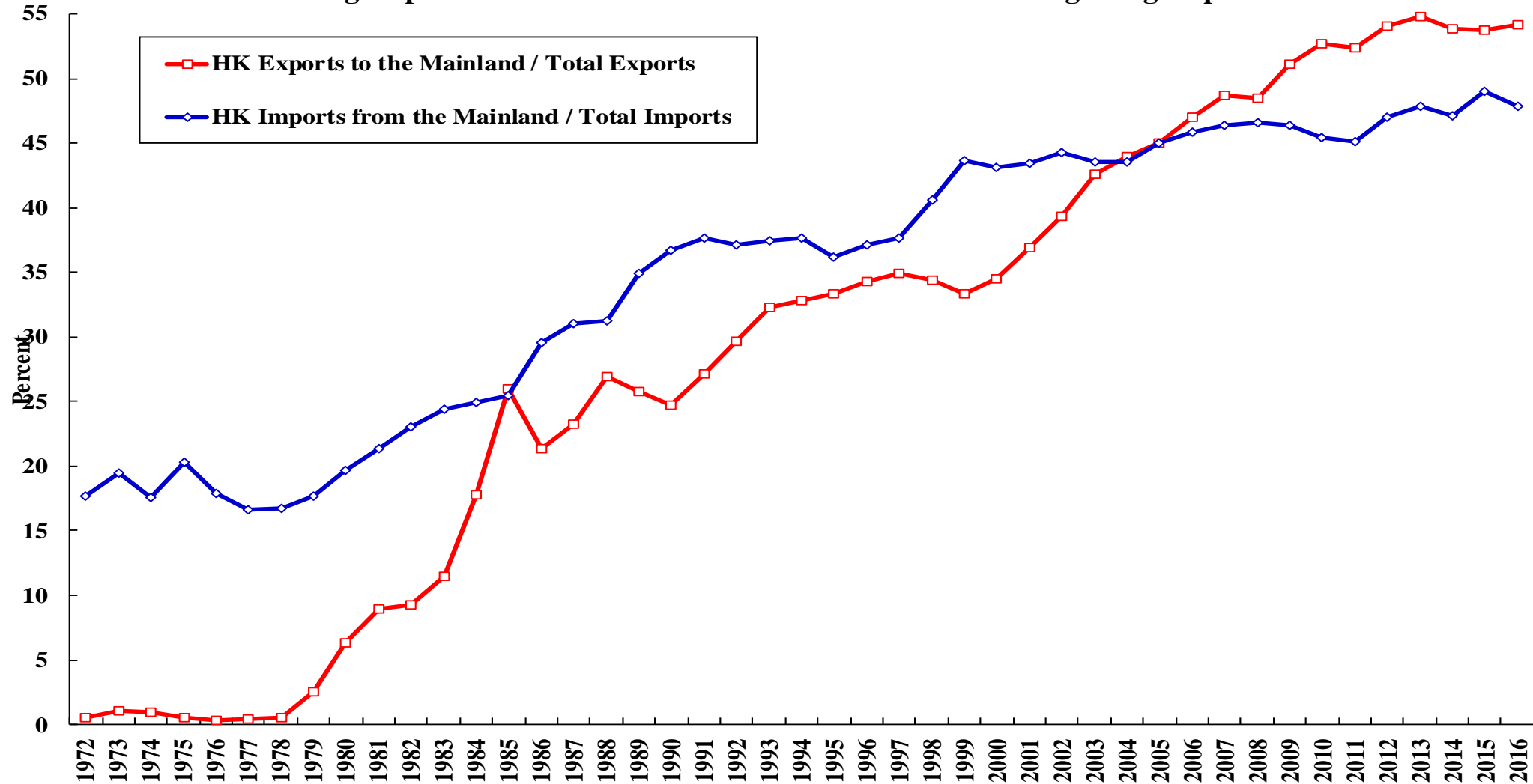


The Hong Kong Economy at a Turning Point

- ◆ The Mainland is Hong Kong's most important export destination and the most important import origin (accounting for 52.8% and 46.7% respectively as of March 2017).
- ◆ Mainland annual direct investment in Hong Kong constitutes approximately half of annual total foreign direct investment in Hong Kong.
- ◆ The Mainland is the most important source of tourists to Hong Kong, accounting for more than 70%.
- ◆ Mainland enterprises are the mainstay of the Hong Kong Stock Exchange.

Hong Kong Exports to and Imports from the M'land as % of Total HK Exports and Imports

Hong Kong Exports to the Mainland as a Percent of Total Hong Kong Exports and Hong Kong Imports from the Mainland as a Percent of Total Hong Kong Imports

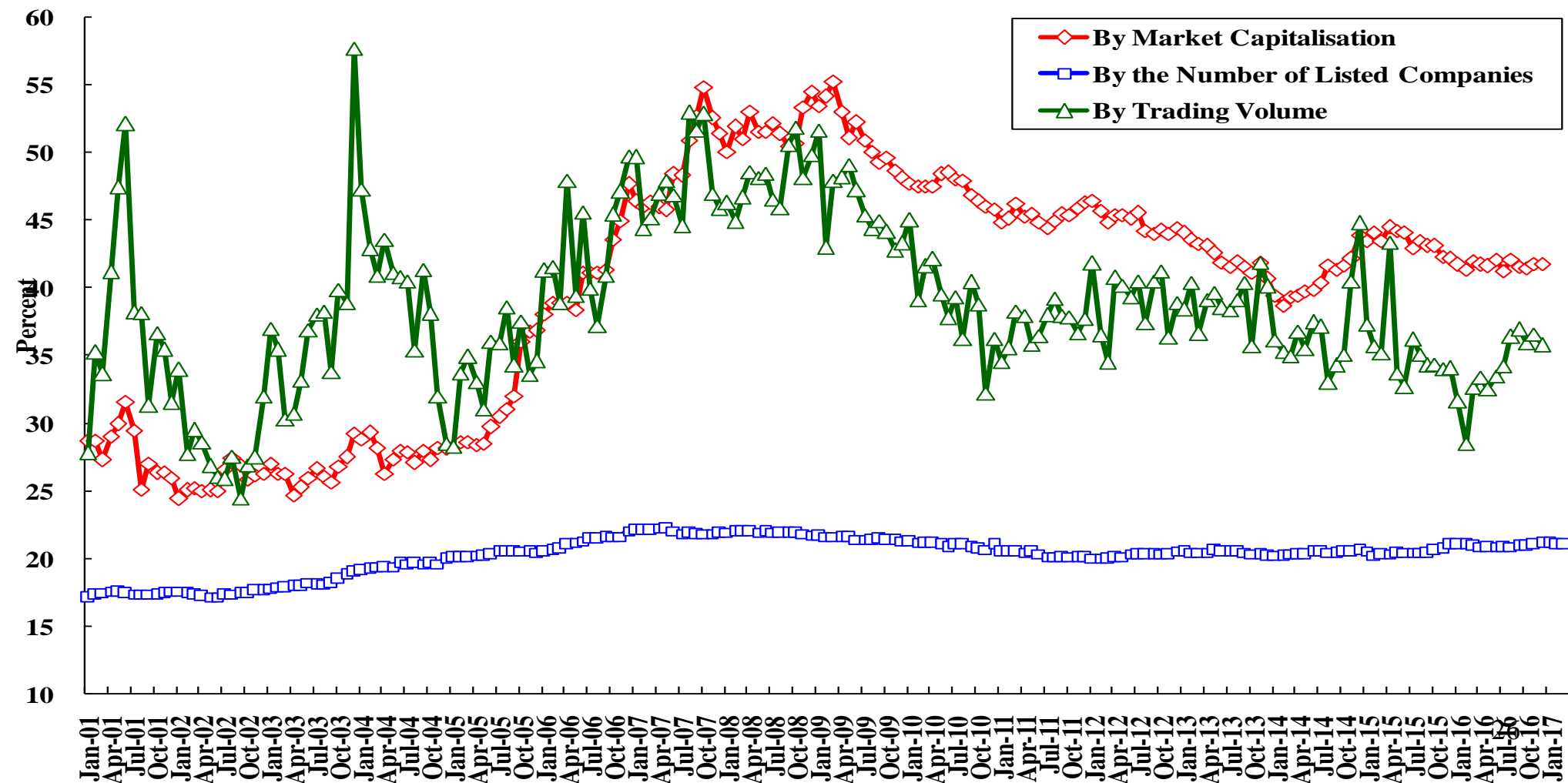


The Hong Kong Economy at a Turning Point

- ◆ Although Mainland enterprises constitute only 20% of the listed enterprises on the Hong Kong Stock Exchange by number, they constitute over 35% of the daily turnover on average and over 40% by market capitalization.
- ◆ They also account for and constitute half of the 50 enterprises included in the Hang Seng Index.
- ◆ From the point of view of IPO volume at the Hong Kong Stock Exchange, with the exception of the years of the Global Financial Crisis, Mainland enterprises account for way over 50%.

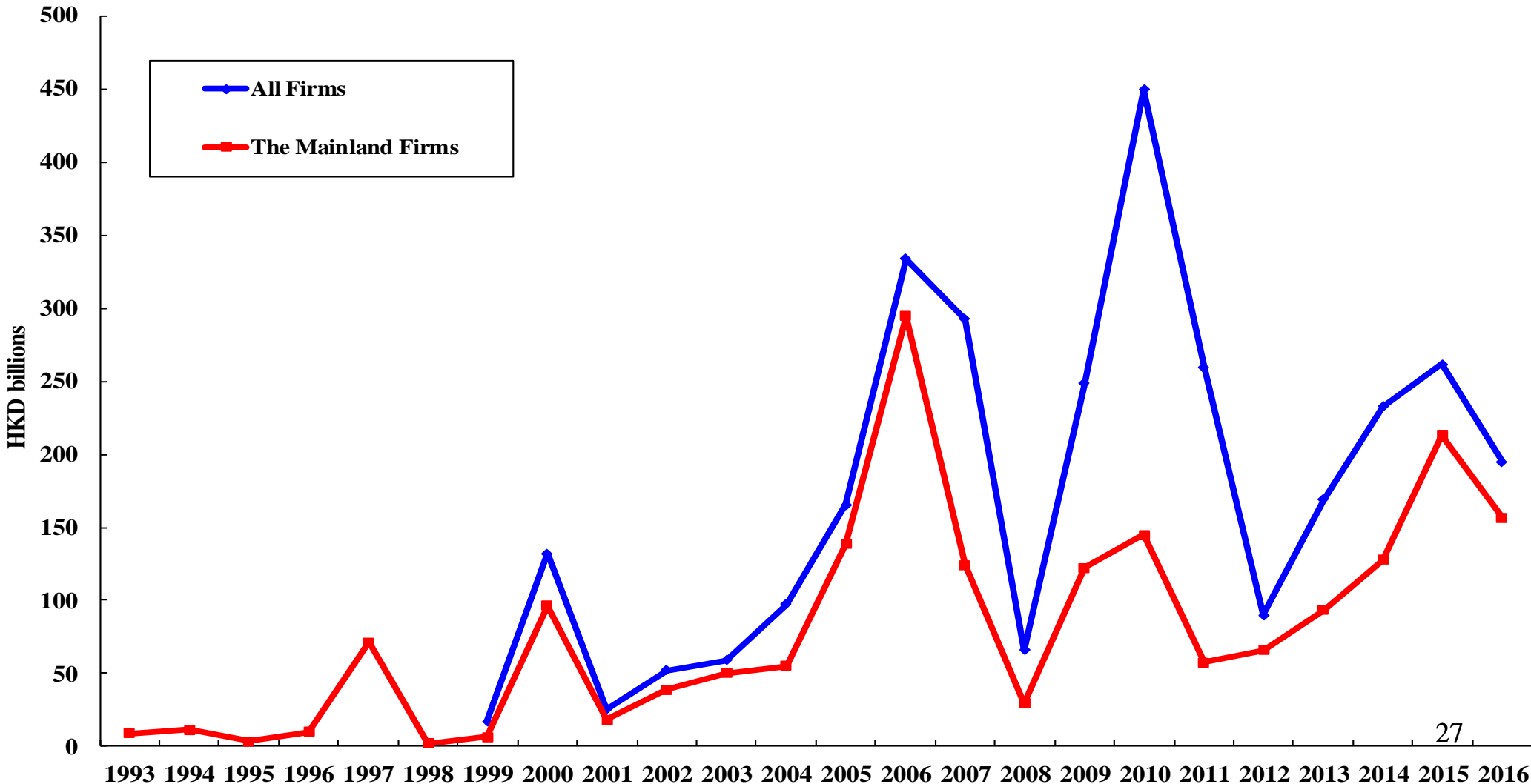
The Share of Mainland Enterprises on the Hong Kong Stock Exchange

The Share of Mainland Enterprises on the Hong Kong Stock Exchange by Market Capitalization, Trading Volume and the Number of Listed Enterprises



Annual IPO Value of Mainland and All Firms on Hong Kong Stock Exchange

Annual IPO Value of Mainland and All Firms on Hong Kong Stock Exchange

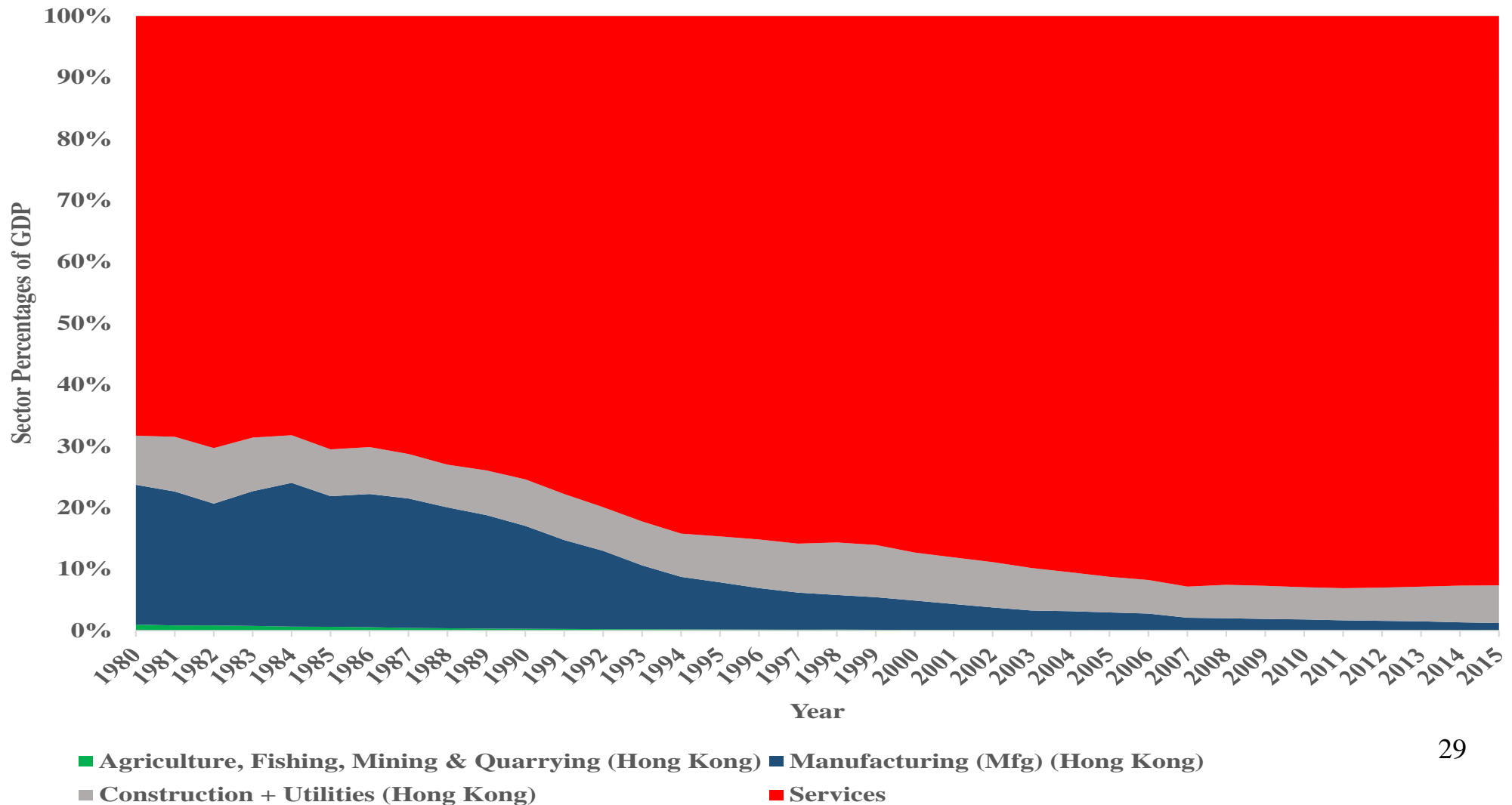


The Hong Kong Economy at a Turning Point

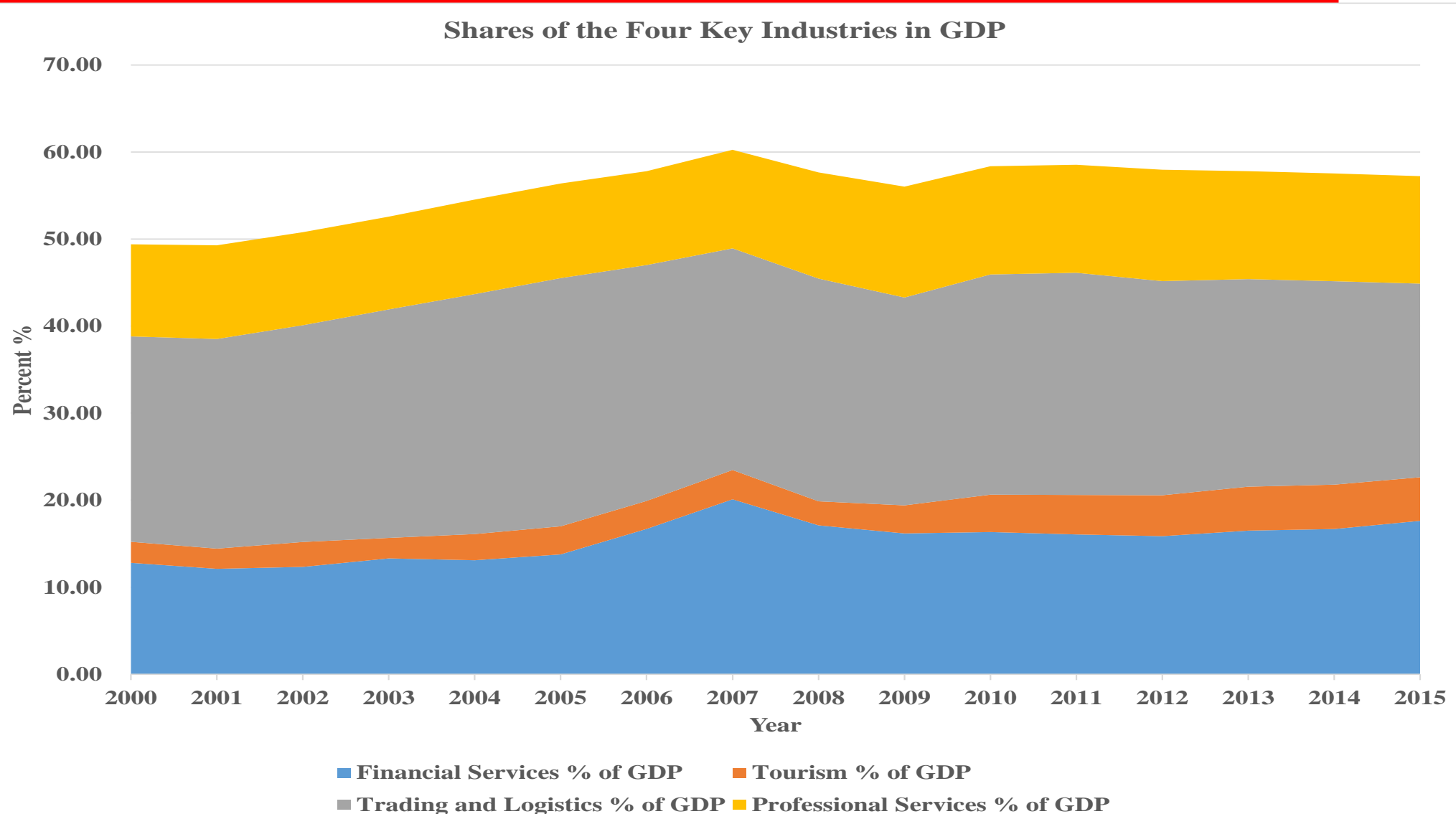
- ◆ The share of manufacturing in GDP has declined from 22.4% in 1980 to 1.1% in 2015. Basically manufacturing has left Hong Kong. Hong Kong direct investments in light manufacturing on the Mainland also face the twin challenges of rising real wage rate and Renminbi exchange rate.
- ◆ The share of the service sector already exceeds 93%.
- ◆ The four traditional key industries in Hong Kong--financial services, tourism, trading and logistics and professional services—have been providing the main support for Hong Kong's economic development and employment. However, their combined share in GDP has declined from its peak of 60.3% in 2007 to 57.2% in 2016 and their share of employment has not been growing in recent years.

The Shares of the Four Production Sectors in Hong Kong GDP

Distribution of Hong Kong GDP by Sectors since 1980



The Shares of the Four Key Industries in Hong Kong GDP



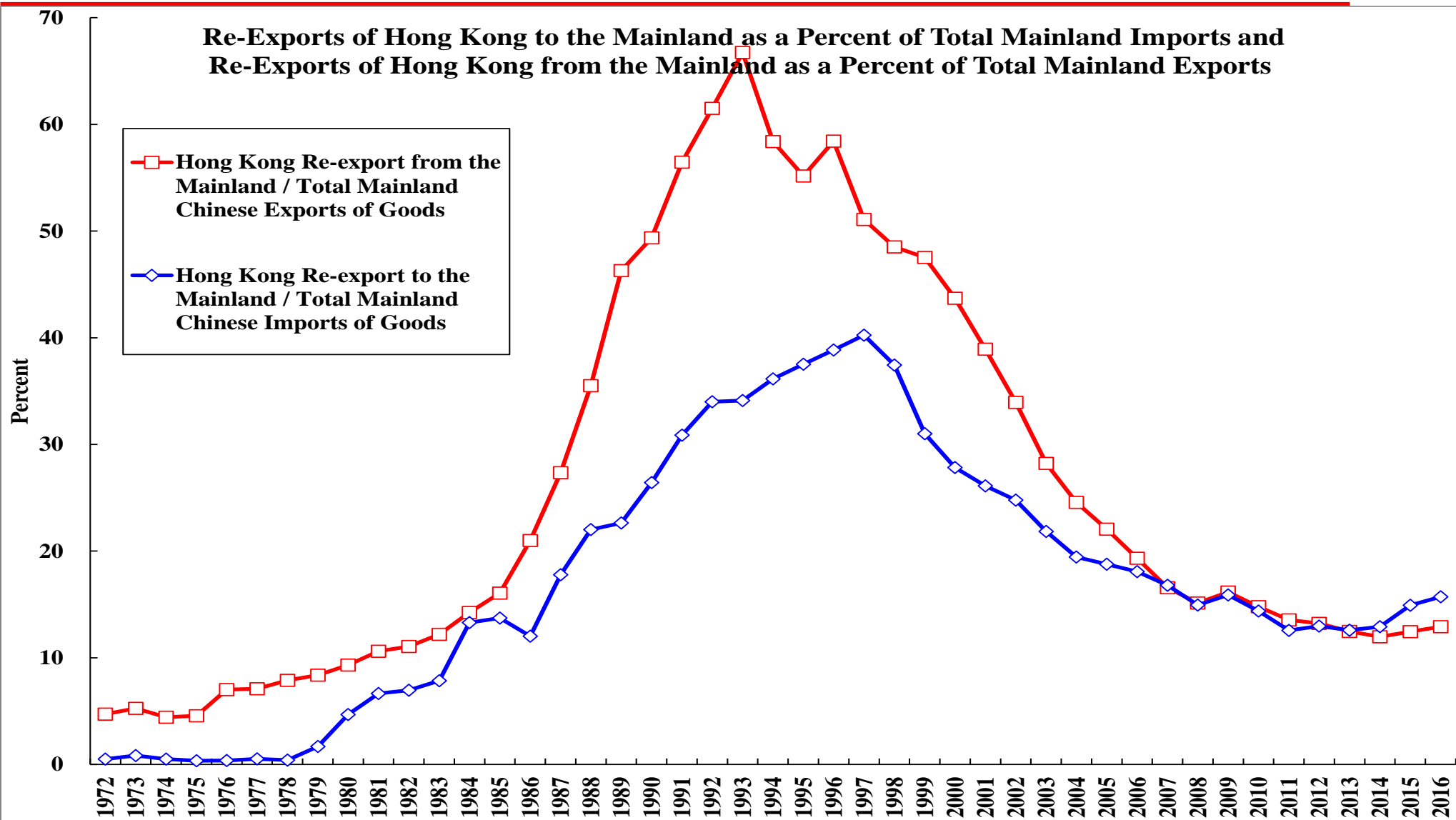
The Hong Kong Economy at a Turning Point

- ◆ Of the four traditional key industries, financial services and professional services still have growth potential. But Hong Kong must enhance its role as a conduit for the Mainland's outbound investments, to provide financial and professional services for the Mainland's growing direct and portfolio investments abroad.
- ◆ The six other selected industries are 1.Cultural and creative industries; 2.Medical services; 3.Educational services; 4.Innovation and technology; 5.Testing and certification; and 6.Environmental industries. In 2015, the shares of cultural and creative industries in GDP and employment reached 4.7% and 5.7% respectively, close to the shares of tourism (5% and 7% respectively), and it has significant growth potential. Educational and medical services, with their huge domestic demands, have also been growing fast. Innovation and technology will require government policy support before it can achieve a high rate of growth.

The Hong Kong Economy at a Turning Point

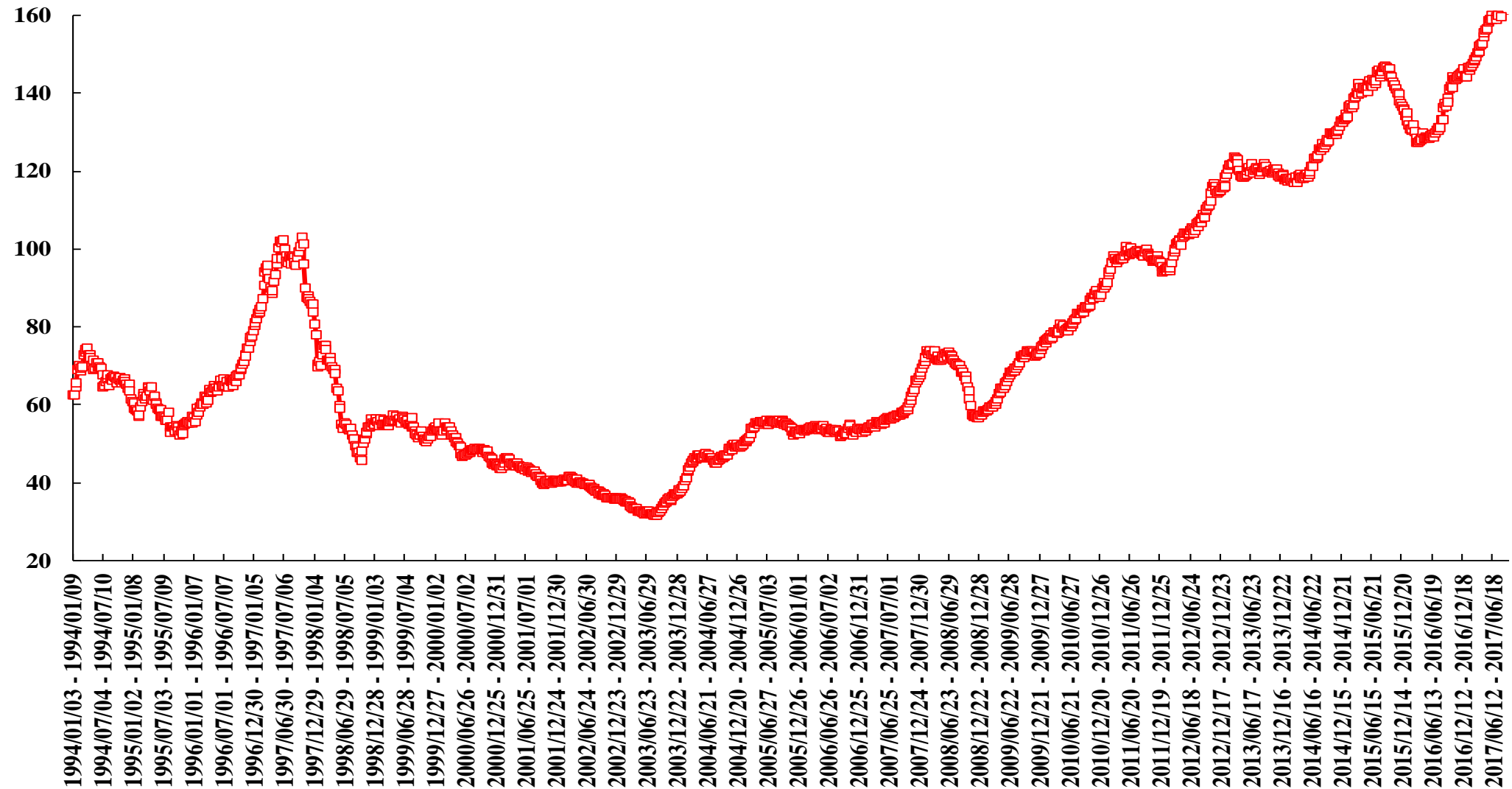
- ◆ For various reasons, the incentive for Mainland enterprises to list their shares in Hong Kong has diminished. That is why Hong Kong has to try to attract potential listings from other economies.
- ◆ The tourist arrivals from the Mainland have already peaked. The value-added of trading and logistics as a percent of GDP has been declining since 2005.
- ◆ The competition from Mainland ports, in addition to the slowdown in the growth of world trade, has caused the proportion of re-exports through Hong Kong in total Mainland trade to decline substantially.
- ◆ Hong Kong must embark on new directions in order to continue to grow and prosper, developing new industries to provide high value-added employment opportunities. It must further diversify its economy to reduce the over-dependence on any one particular sector or region. Above all, it cannot afford to turn inward and must remain internationalized.

HK Re-Exports to and from the Mainland as a Percent of Mainland Imports and Exports



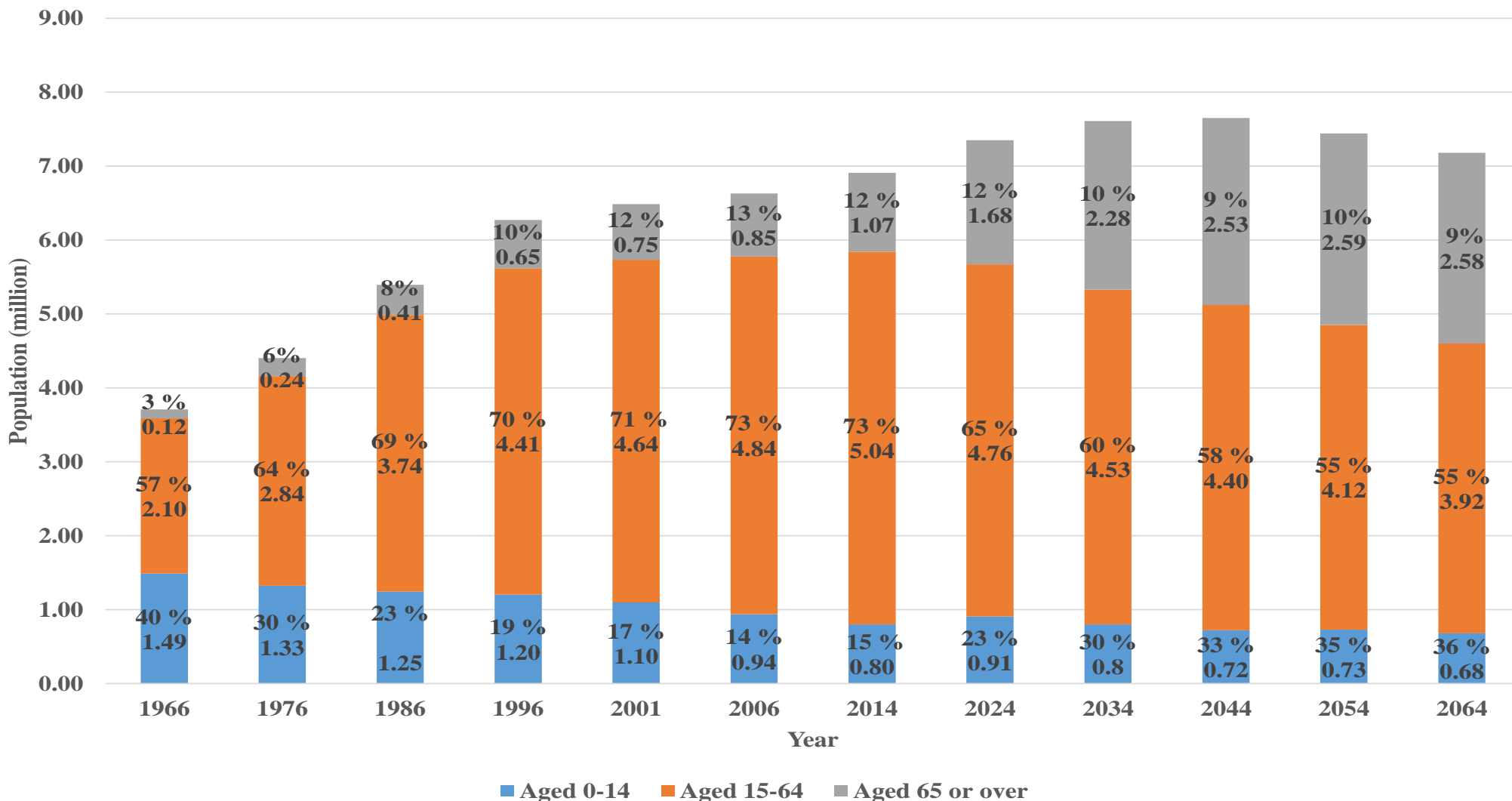
Price Index of Residential Real Estate, Hong Kong: Centa-City Leading Index (1997=100)

Hong Kong: Price Index of Residential real Estates, 1997=100



The Hong Kong Economy at a Turning Point: The Demographic Profile of Hong Kong

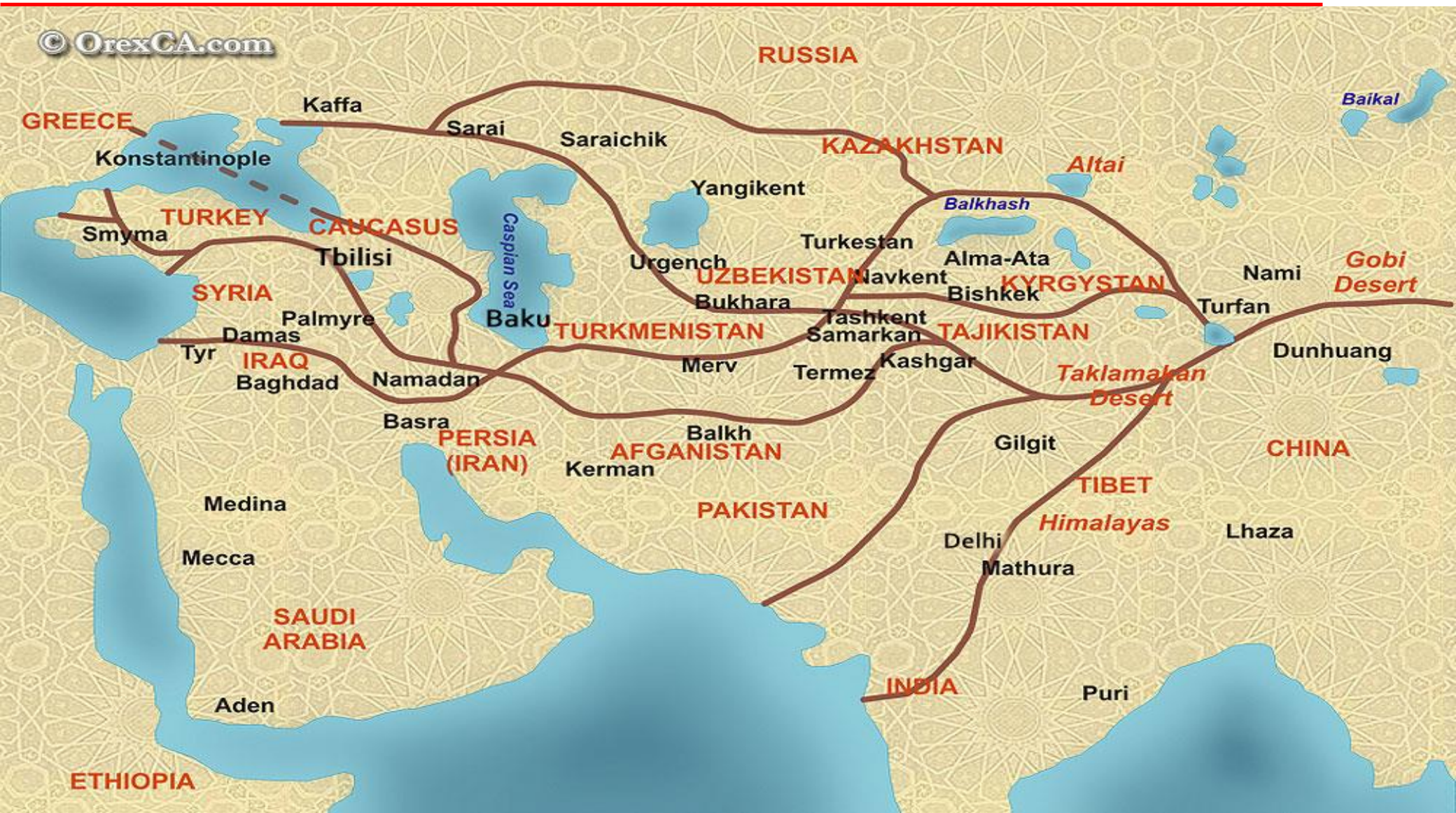
Elderly Population Trend



The Belt and Road (B&R) Initiative

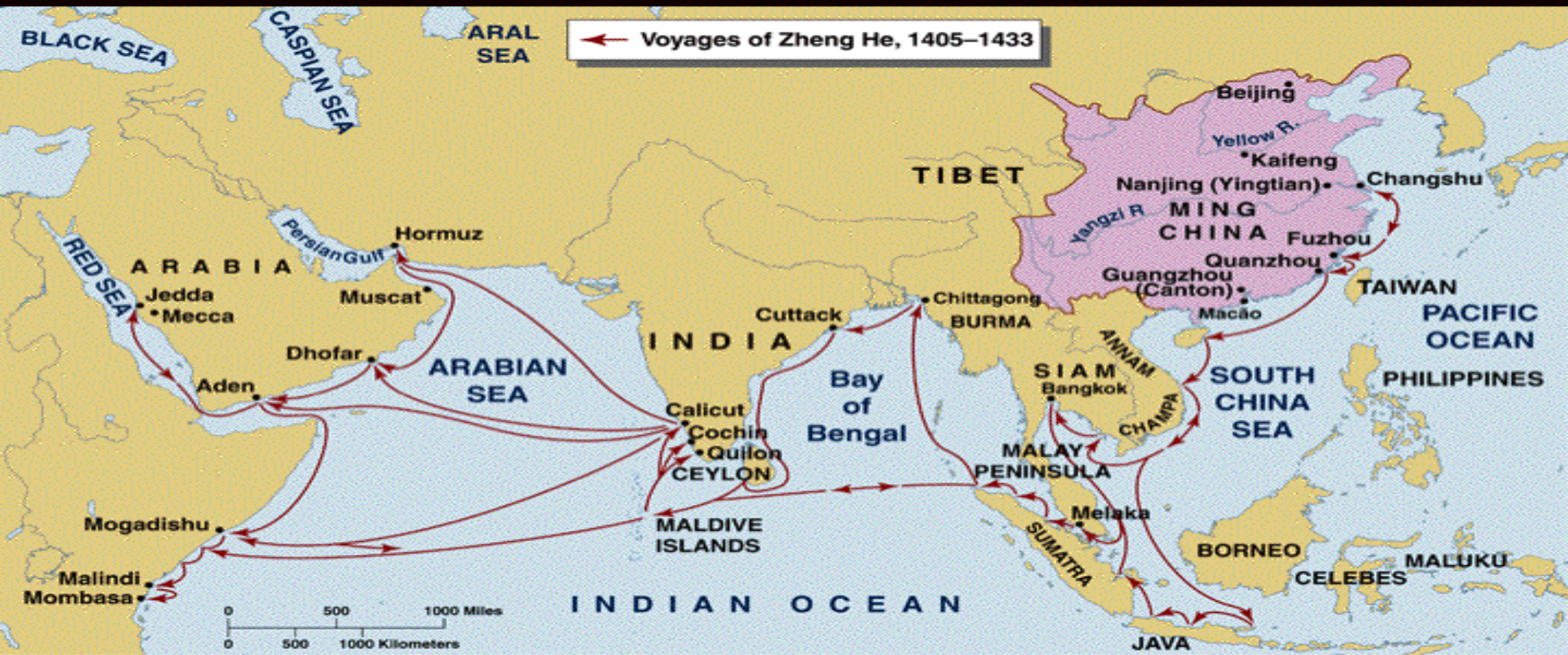
- ◆ The “Belt and Road” (B&R) Initiative, consisting of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, was launched by President XI Jinping in September 2013. It is a grand, multi-country (72 by last count), multi-decade development plan with the objective of linking and transforming the economies of Asia, Europe, Africa and Oceania.
- ◆ The Silk Road Economic Belt, as the Old Silk Road, links the continents of Asia, Europe and Africa together. It brings together China, Central Asia, West Asia, Middle East, North Africa, Russia and Europe. In particular, it will encompass new Eurasian Land Bridges.
- ◆ The 21st-Century Maritime Silk Road is designed to connect China’s coastal regions to Europe through the South China Sea and the Indian Ocean in one route, and through the South China Sea to the South Pacific and Oceania in the other. However, the “Northern Passage”, through the Bering Strait and down to Northern Europe, has also been proposed to be part of the 21st-Century Maritime Silk Road as global warming makes the route navigable year round.

The Belt and Road (B&R) Initiative: The Old Silk Roads



Voyages of Admiral ZHENG He (1405-1433)

(map from www.history.ubc.ca)



MAP 2-6 VOYAGES OF ZHENG HE, 1405-1433

The Belt and Road (B&R) Initiative

- ◆ The Belt and Road (B&R) Initiative is a serious long-term commitment of China that has been written into the Charter of the Communist Party of China.
- ◆ It aims to create a peaceful and secure environment for joint development by building a trade, investment and infrastructure network connecting all B&R nations.
- ◆ It emphasizes the nurturing of mutual understanding and trust and the formation of durable relationships through cultural and educational exchanges as well as industrial cooperation.
- ◆ It promotes open, inclusive, balanced and green economic globalization through enhanced regional interconnectivity.
- ◆ But above all, it seeks to stimulate and create sustainable trade and investment exchanges where none exist before, thus benefitting every country and accelerating economic development for all.

The Belt and Road (B&R) Initiative:

The Financing of Infrastructure Projects

- ◆ China's own economic development experience confirms that both reform and openness are necessary for success. And infrastructure building is the indispensable first step for achieving real effective openness.
- ◆ This is true of the B&R Initiative. The Asian Development Bank (ADB) estimated that emerging Asian economies would need infrastructure investment totaling US\$1.7 trillion a year in order to maintain economic growth, but only about half the amount would be available. Finding ways to finance the infrastructure needs is the first priority.
- ◆ The more cynical observers may suggest that the B&R initiative is only a Chinese ploy to solve its excess capacity problem. However, one should note that B&R is a multi-decade plan whereas the Chinese excess capacity is at most an intermediate-term (five-year) problem. Moreover, it is actually win-win for both China and the host country of the infrastructure project if a Chinese contractor is the successful bidder because it is likely to imply a lower construction cost.

The Belt and Road (B&R) Initiative: The Development of a B&R-wide Stock Market

- ◆ The B&R projects require private investment in both equity and debt.
- ◆ The buying power of Asian investors has been growing very rapidly since 2000, driven by the rapid rate of growth of their GDPs and wealth as well as the high saving rates.
- ◆ The average annual turnover of the Shanghai and Shenzhen Stock Exchanges combined was more than US\$41 trillion, higher than that of the New York Stock Exchange of US\$30 trillion in 2016. In contrast, the average daily turnover of the Hong Kong Stock Exchange was only US\$2 trillion. The potential stock-buying power of the Mainland investors is what will attract the non-Mainland enterprises to list their shares on the Hong Kong Stock Exchange.
- ◆ Sooner or later, the investment portfolios of Mainland investors will have to be diversified into investments outside the Mainland. Hong Kong is the ideal place to provide a channel for such investments.

The Development of a Belt-and-Road-Wide Stock Market

- ◆ At present, there is no single market in which the stocks of all major enterprises in East Asia (let alone the stocks of enterprises in the other Asian Belt and Road countries) are traded. Investors both inside and outside of East Asia would welcome a single exchange where they can buy and sell the equity and debt of blue chip East Asian enterprises (e.g., the MSCI Far East Index components) in US\$ or HK\$ or eventually the Renminbi, without having to worry about foreign exchange conversions and restrictions on capital inflows and outflows.
- ◆ In addition, Mainland investors would also welcome the convenience of being able to buy and sell the equity and debt of blue-chip enterprises in developed economies (e.g., the Dow Jones 30 companies) in a single market, if and when capital controls are lifted on the Mainland.
- ◆ It therefore behooves Hong Kong to attract, encourage and solicit blue-chip enterprises around the world to do secondary listings in Hong Kong as Hong Kong Depositary Receipts (HDRs).

The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) Initiative



The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) Initiative

- ◆ The Vision
- ◆ Opportunities and Challenges
- ◆ Sharing of Infrastructure Facilities
- ◆ Specialization, Division of Labor and Coordination

The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) Initiative: The Vision

- ◆ In 2016, the total population of the eleven cities within the GBA were 68 million, with a combined GDP of US\$ 1.39 trillion and an average GDP per capita of US\$ 20,412. The U.K., which was the world's fifth-largest economy in 2016, had a population of 65.1 million, a GDP of US\$ 2.63 trillion and a GDP per capita of US\$ 40,399.
- ◆ Although these two regions share similar size of population, the GDP and GDP per capital of the U.K. are almost twice that of the GBA.
- ◆ However, based on the current growth rate of the GBA, its economy will at least double in size after a decade. As the U.K. economy has slowed down, and taking into account the negative impact of Brexit, it seems likely that the GBA will overtake the U.K. by 2027 to become the world's fifth-largest economy.
- ◆ The GBA has the potential to eventually become an enormous international metropolis, with an average GDP per capita exceeding US\$ 40,000, achieving a top rank amongst the developed economies.

The Guangdong-Hong Kong-Macau GBA Initiative: Opportunities and Challenges

- ◆ The cities within the GBA should move towards economic integration to make more efficient use of their resources, giving full play to their potential and complementary economic structures and realizing the advantage of economies of scale, specialization and division of labor.
- ◆ In order to integrate the economic activities in the GBA, it is imperative to consider establishing a pilot GBA free trade zone for trial implementation.
- ◆ Economic integration of the GBA requires the free flow of four major elements within: (1) goods and services; (2) people; (3) capital; and (4) information.
- ◆ The role models for the GBA are the bay areas of San Francisco, New York and Tokyo, which all have the free flow of the four major elements within them.

The GDHKM Greater Bay Area (GBA)

Initiative: Sharing of Infrastructure Facilities

- ◆ The infrastructure facilities within the GBA should be shared among the GBA cities. Different GBA cities should coordinate among one another in their development plans, specialize in their respective areas of expertise and promote the division of labor to avoid duplication, mismatch and waste of resources.
- ◆ For example, the GBA can follow the example of New York and New Jersey to establish a GBA or HK-Shenzhen Airport Authority to manage all the civilian airports in the area. As a first step, the Hong Kong International Airport should consider cooperating with the Shenzhen Baoan International Airport, through the linkage of a high-speed railroad between the two airports, so that flights between Hong Kong/Shenzhen and Mainland cities take off and land in the Baoan Airport and international (overseas) flights take off and land in the Hong Kong Airport. The revenue of the two airports will be shared by Hong Kong and Shenzhen.
- ◆ Guangdong, Hong Kong and Macau may also consider coordinating with the military and starting a GBA cross-border civilian helicopter business to strengthen ties and facilitate exchanges among the GBA cities.

The GDHKM GBA Initiative: Specialization, Division of Labor and Coordination

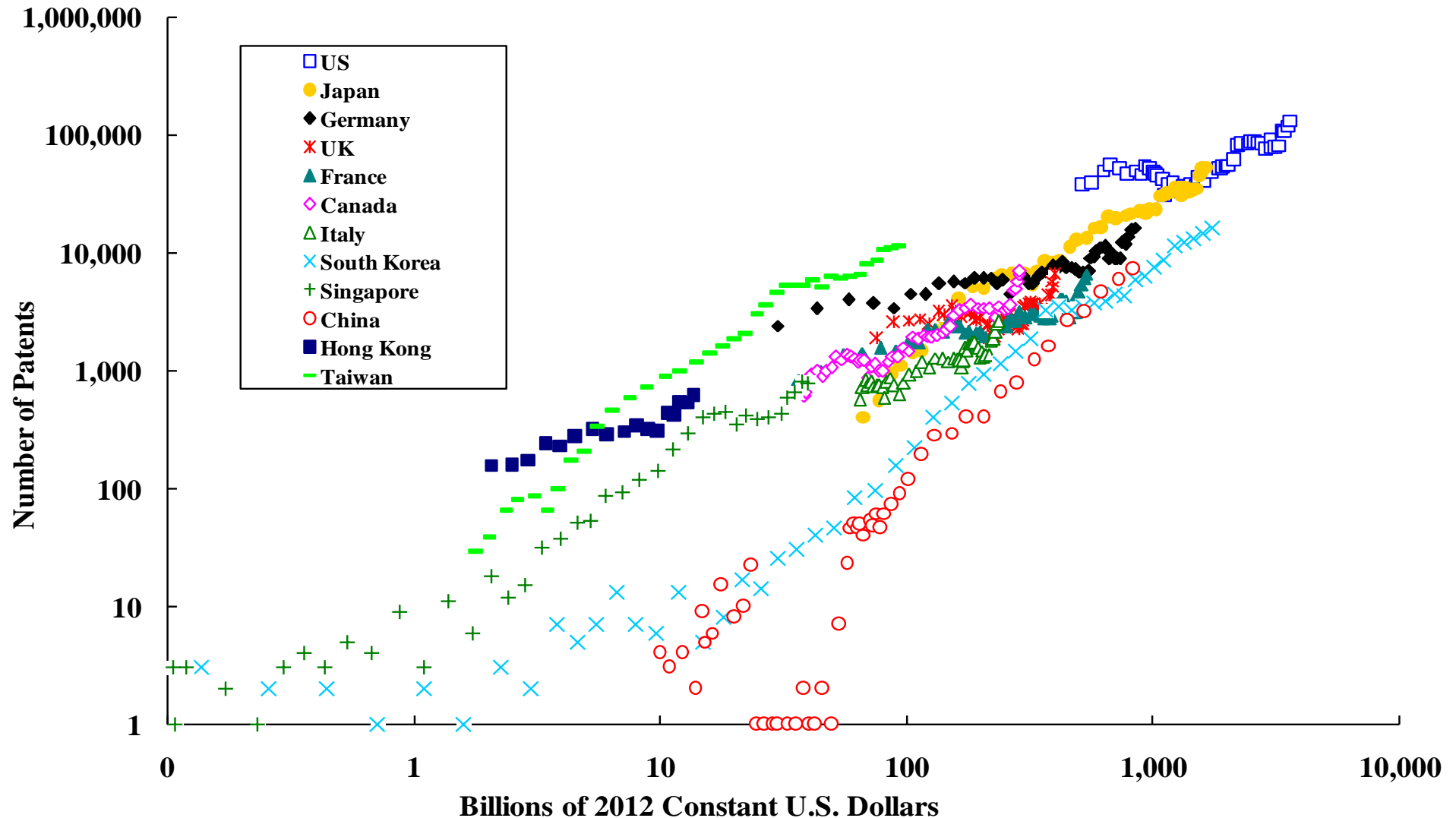
- ◆ For example, after the opening of the Hong Kong-Zhuhai-Macau Bridge, the Macau Airport can be used exclusively for serving private and business aircrafts in the GBA, so that the landing and taking-off of private aircrafts will be shifted from Hong Kong International Airport to the Macau Airport. Zhuhai International Airport can be developed into a transnational air cargo express delivery hub within the Eastern Asian region (similar to the FedEx America Centre in Memphis, Tennessee, U.S.) for serving Northeast and Southeast Asia.

The GDHKM GBA Initiative: Specialization, Division of Labor and Coordination

- ◆ Hong Kong, together with Shenzhen, can also develop into an international center for innovation and venture capital, a “Silicon Valley/Route 128 ” cum NASDAQ for the entire Belt and Road region, specializing in the creation of intangible capital (human capital, R&D capital, goodwill, intellectual property, and knowledge capital) and the capitalization of its commercial value through “Initial Public Offerings (IPOs)” and “Mergers and Acquisitions (M&As)”.
- ◆ This will required stepped up investment in human capital and R&D in Hong Kong, as well as changing appropriate laws and regulations so as to facilitate Hong Kong-Shenzhen to become an international innovation hub.

Patents Granted in the United States and R&D Capital Stocks, Selected Economies

Patents Granted in the United States and R&D Capital Stocks, Selected Economies



The Nineteenth National Congress of the Communist Party of China

- ◆ President XI Jinping has consolidated his control over the party, the government and the armed forces. He is the undisputed leader, with his political theory—his interpretation of Marxism—enshrined in the Charter of the Communist Party of China (CPC) in the form of “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era” as the guiding ideology for the party. This makes it possible for him to push forward on further economic reform and opening.
- ◆ The anti-corruption campaign launched after the Eighteenth Party Congress has succeeded in significantly reducing corruption on the Mainland. Altogether, approximately 440 high-level cadres were disciplined, including 43 members and alternate members of the Central Committee of the CPC, 9 members of the Central Commission for Discipline Inspection, and approximately thirty percent of the officers of the rank of a general or an admiral in the armed forces.

The Nineteenth National Congress of the Communist Party of China

- ◆ Under the leadership of President XI, the Mainland economy successfully avoided a hard landing and was able to transition smoothly into a “new normal”, with a steady rate of growth of approximately 6.5 percent per annum.
- ◆ China was also able to raise its external profile and participate in global governance without appearing either too aggressive or too accommodating. It managed to play a leading role at the 2015 United Nations Climate Change Conference in Paris and was instrumental in bringing about the Paris Agreement. And while there were unresolved disputes in the East China Sea, the South China Sea, and on the Sino-Indian border, open armed conflict was successfully avoided.
- ◆ Mr. XI has also launched the ambitious Belt and Road Initiative, which will likely have a huge and lasting positive impact on the economies of Asia, Europe and Africa.

The Nineteenth National Congress of the Communist Party of China

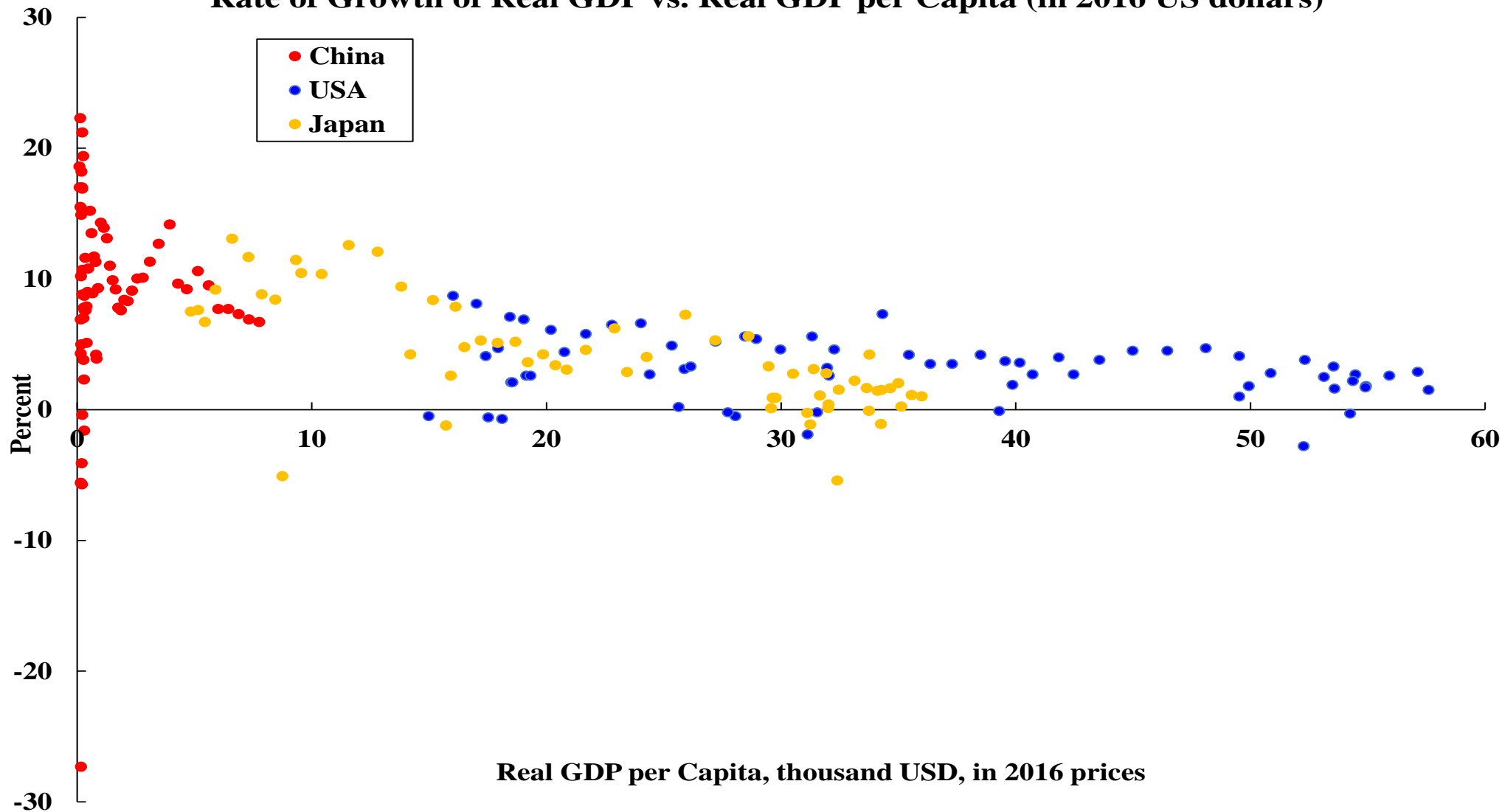
- ◆ In his work report to the Congress, President XI repeatedly emphasized the importance of Chinese culture and Chinese philosophy. This may reflect the realization that ultimately character and values, and not just talent, ability and popularity, are the most important determinants of actions and behavior of government officials. In order to make the Party a clean and effective governing body, it is important to be able to motivate the party members through ideology and to appeal to their idealism and patriotism, and not to rely solely on potential punishment as a deterrent.
- ◆ The expected establishment of a State Supervisory Commission, also mentioned in the work report, is a momentous decision with far-reaching consequences. It will actually have a function similar to that of the Independent Commission Against Corruption (ICAC) of Hong Kong established in the 1970s and hopefully will have a similarly large and positive impact.

Projections of the Future of the Chinese Economy

- ◆ It is assumed that the Chinese economy will continue to grow above 6% per annum for a few years, declining gradually to between 5% and 6%, and that the U.S. economy will grow at an average rate of 3% per annum between now and 2050.
- ◆ It may be thought that the Chinese economy will be unable to sustain an approximately 6% average annual rate of growth for such a long time. But given the still relatively low level of real GDP per capita in China, such a rate of growth should be possible for at least several decades (see the following chart in which the experiences of China, Japan and the U.S. are compared.)
- ◆ The projections of Chinese and U.S. real GDP and real GDP per capita between now and 2050 are presented in the following charts.

Growth Rates vs. Levels of Chinese, U.S. and Japanese Real GDP (2016 tril. US\$)

Rate of Growth of Real GDP vs. Real GDP per Capita (in 2016 US dollars)



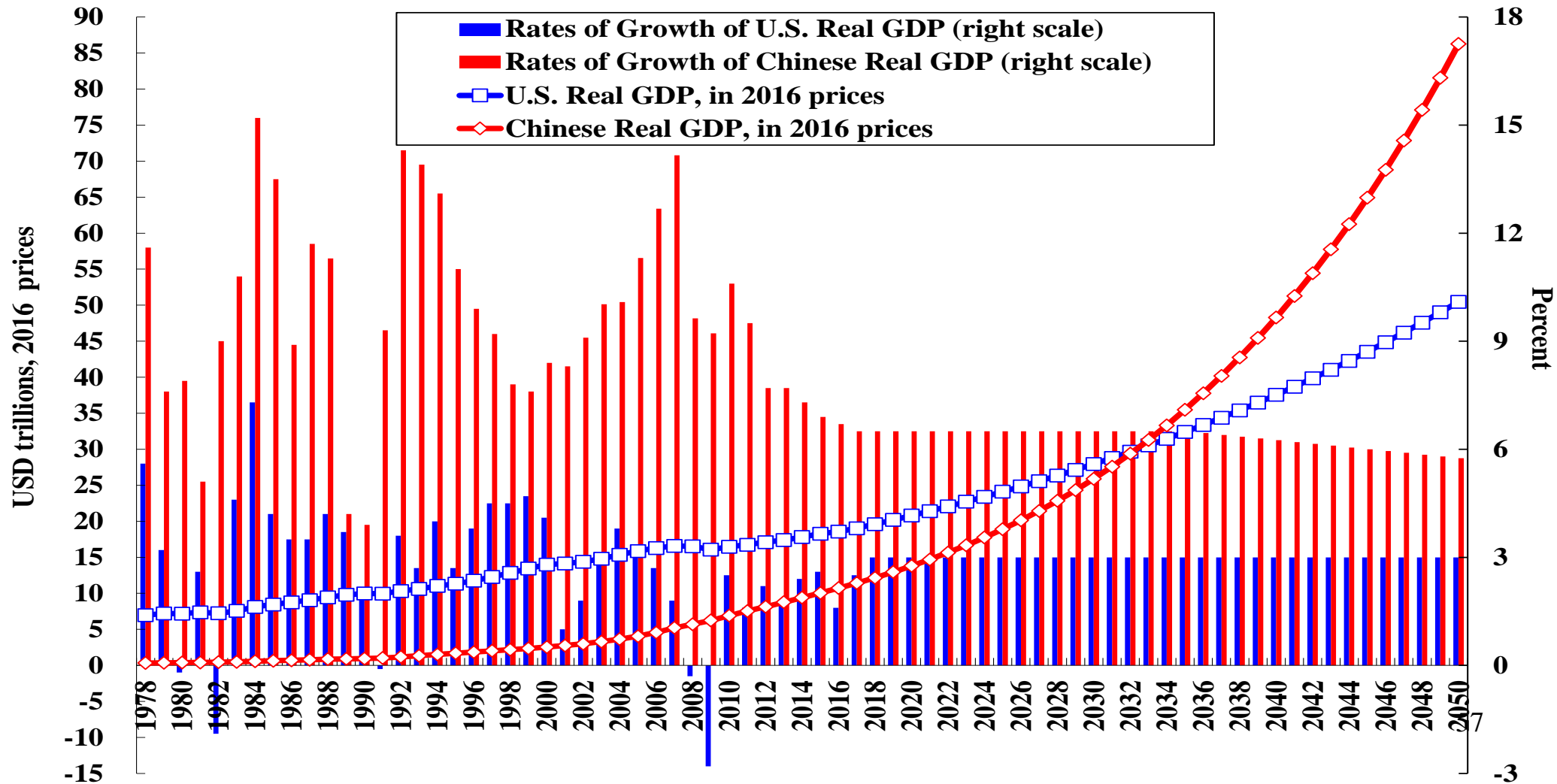
Projections of the Future of the Chinese

Economy

- ◆ In his work report to the Nineteenth Party Congress, President XI Jinping identified several milestones in his speech at the Nineteenth Party Congress at 2020, 2035 and 2050.
- ◆ The first milestone is to become a moderately well-off society by 2020. Our projections show that by 2020, Chinese real GDP per capita (in 2016 prices) will exceed US\$9,800 (compared to US\$62,600 for the U.S.).
- ◆ Our projections also show that by 2033, Chinese real GDP will surpass U.S. real GDP (US\$31.3 trillion versus US\$30.6 trillion), making China the largest economy in the world. However, in terms of real GDP per capita, China will still lag behind significantly, with US\$21,000 compared to US\$84,000 for the U.S.
- ◆ By 2050, Chinese real GDP will reach US\$86 trillion compared to US\$50 trillion for the U.S. In terms of real GDP per capita, China will reach US\$54,000, approximately the current level of U.S. real GDP per capita, compared to US\$123,500 for the U.S.

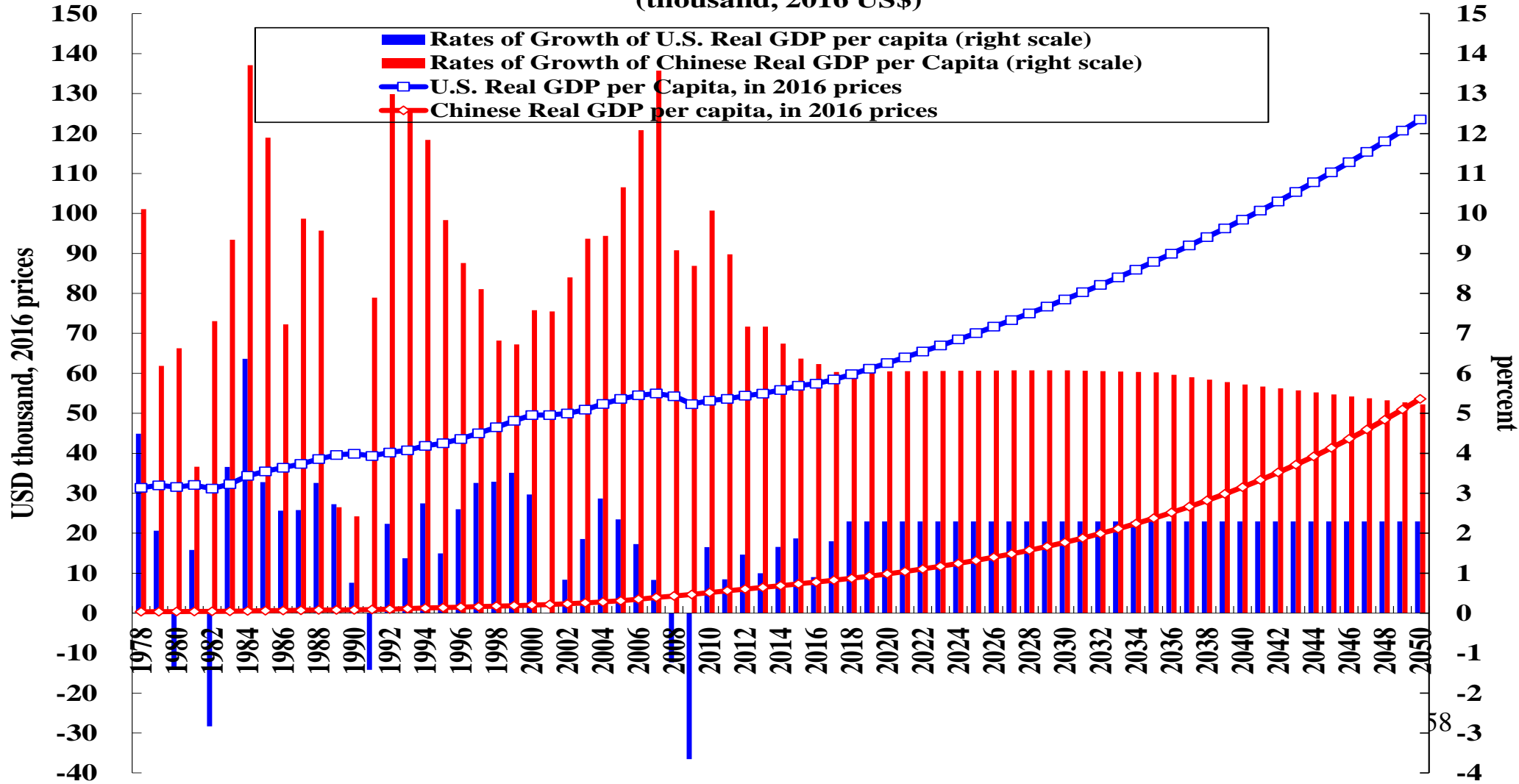
Actual and Projected Levels and Growth Rates of Chinese and U.S. Real GDP (2016 tril. US\$)

Actual and Projected Chinese and U.S. Real GDPs and Their Rates of Growth
(trillion 2016 US\$)



Actual and Projected Chinese and U.S. Real GDP/ Capita and Their Rates of Growth (1,000 2016 US\$)

Actual and Projected Chinese and U.S. Real GDP per Capita and Their Rates of Growth (thousand, 2016 US\$)



The Future of the Hong Kong Economy

- ◆ The Belt and Road and Greater Bay Area Initiatives should bring great opportunities to the Hong Kong economy and to its financial sector in particular. It will usher in a “third spring” for the Hong Kong economy.
- ◆ Hong Kong should take maximum advantage of the opportunities offered by the Belt and Road and the Guangdong-Hong Kong-Macau Greater Bay Area initiatives.
- ◆ However, it will require the concerted efforts of business, government and academia to realize the full potentials of the B&R and GBA initiatives.
- ◆ Hong Kong must do its part in devising implementable plans and strategies and in addition seek assistance and support from the Central Government on the basis that these initiatives are win-win for both Hong Kong and the Mainland. It is up to Hong Kong to make itself indispensable once again, as it was during the early days of the Chinese economic reform and opening to the world.

The Future of the Hong Kong Economy: Hong Kong as a Full-Service Financial Center

- ◆ Hong Kong is ideal as a center for the financing of the “B&R” projects. It has the advantages of not only complete capital mobility, full currency convertibility, a stable exchange rate and low taxes, but also ready access to the huge market, the excess savings pool, and the support of the governmental institutions in China, the principal sponsor of B&R.
- ◆ However, this will require the development of an active and liquid bond market for both short and long maturities in Hong Kong.
- ◆ The transactions can be done in multiple currencies, for example, the U.S. Dollar and the Renminbi.
- ◆ Hong Kong should actively encourage the organization of large infrastructure bond funds specializing in B&R project bonds. It can add significant value by helping to maintain an active and liquid secondary market for the individual project bonds.

The Future of the Hong Kong Economy: Hong Kong as a Full-Service Financial Center

- ◆ Hong Kong is also an ideal location for the establishment of a Belt-and-Road (which includes East Asia)-wide stock market. because of its efficiency, free mobility of capital, rule of law, stable currency (fixed peg to the U.S. Dollar), and no tax on dividends and capital gains.
- ◆ International institutional investors will also be attracted to Hong Kong by newly listed Mainland enterprises, especially the private ones, as well as the Belt-and-Road enterprises.
- ◆ Once such an international securities market gets going, it should start a virtuous cycle of more trading volume leading to more listing, and more listing in turn leading to more trading volume, thus feeding on each other.
- ◆ Hong Kong should allow differential voting rights for new listing enterprises as long as there is full disclosure and adequate protection for the minority shareholders.

The Future of the Hong Kong Economy: HK as an International Professional Services Center

- ◆ Hong Kong can become an international professional services center, providing accounting, arbitration, legal and mediation services.

Concluding Remarks

- ◆ The economic prospects for the Mainland are very good. The Mainland economy should be able to continue to grow at an average rate of around 6% per annum for the next several decades.
- ◆ The Mainland has become a surplus economy—there is excessive production capacity in almost every traditional industry. As long as there is aggregate demand, the supply will be forthcoming.
- ◆ The economic fundamentals for the Mainland continue to be strong: the high national saving rate ensures the ample supply of new investment; and while the society is ageing, there is still significant surplus labor in the rural areas and by lifting the existing too low retirement ages (50 or 55 for women and 60 for men), coupled with the recent abolition of the “one child” policy, there should be no serious labor shortage. Investment in intangible capital, education and R&D, has been increasing rapidly.
- ◆ The Belt and Road (B&R) Initiative should provide an engine for economic growth not only for the Mainland but for all of the Belt and Road countries, including European and African countries.

Concluding Remarks

- ◆ The economic prospects for Hong Kong are potentially equally good. If the Mainland prospers, Hong Kong can also prosper. Moreover, both the Belt and Road and the Guangdong-Hong Kong-Macau Initiatives open up unique opportunities for the financial and professional services sectors of Hong Kong. It will usher in a “third spring” for the Hong Kong economy.
- ◆ Hong Kong definitely has the potential to become the world’s leading international financial centre. Together with Shenzhen, Hong Kong also has the potential to become an international innovation hub comparable to the Silicon Valley and NASDAQ combined. Once Hong Kong achieves these positions, it can use its first-mover advantage to remain in them indefinitely.
- ◆ However, achieving these goals requires the HKSAR Government, business, academia and the public to work together. Medium- to long-term strategies and pragmatic implementation plans must be put in place. Moreover, the HKSAR Government must also seek the help and support of the Central Government. The time for “laissez faire” or “positive non-interventionism” of the government is over.