

香港經濟的挑戰與機遇

The Challenges and Opportunities for the Economy of Hong Kong

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Outline

- ◆ Global Trends and Challenges
- ◆ Promoting and Sustaining Full Employment
- ◆ Moving Up the Value Chain
- ◆ Increasing the Supply of Space
- ◆ Improving Old-Age Security
- ◆ Concluding Remarks

Global Trends and Challenges

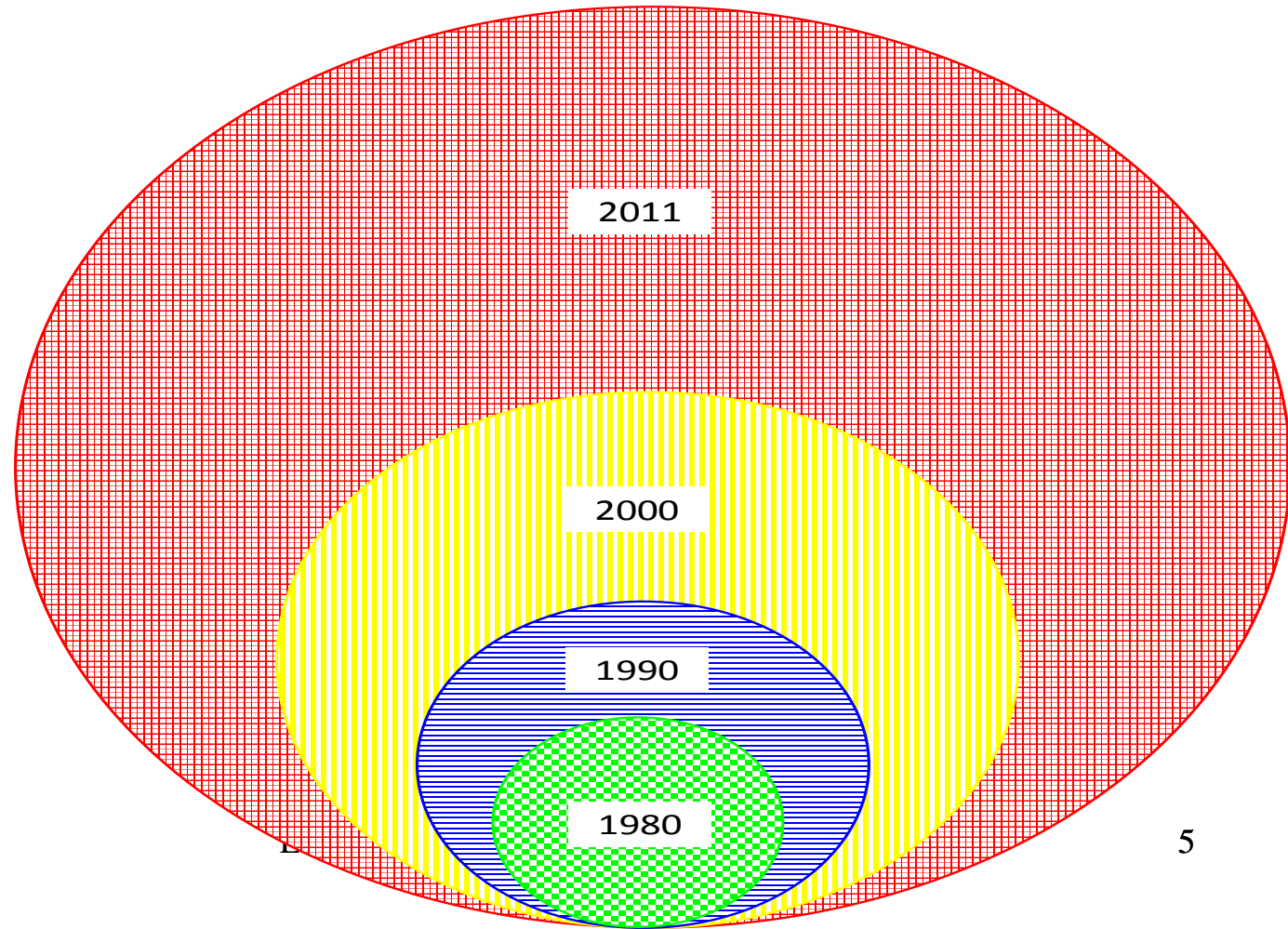
- ◆ Information and Communication Technology Revolution
- ◆ Supply Chains and Fragmentation of Production
- ◆ Sluggish Growth in the Developed Economies
- ◆ Competitive Devaluations
- ◆ Aging of the Population

Comparison of the Economies of Hong Kong and the Mainland

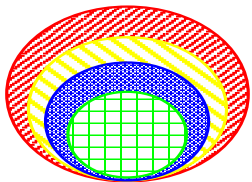
- ◆ It is useful to compare the economies of Hong Kong and the Mainland over time.
- ◆ Huge changes have occurred over the past 30 odd years.
- ◆ In 1980, the GDP of the Mainland economy is only 7 times that of Hong Kong. Today, it is 32 times.
- ◆ However, in terms of GDP per capita, Hong Kong still leads the Mainland at 6 times in 2011, but the gap has shrunk significantly from 28 times in 1980.

Comparison of the Real GDPs of Mainland and Hong Kong (2011 US\$)

China

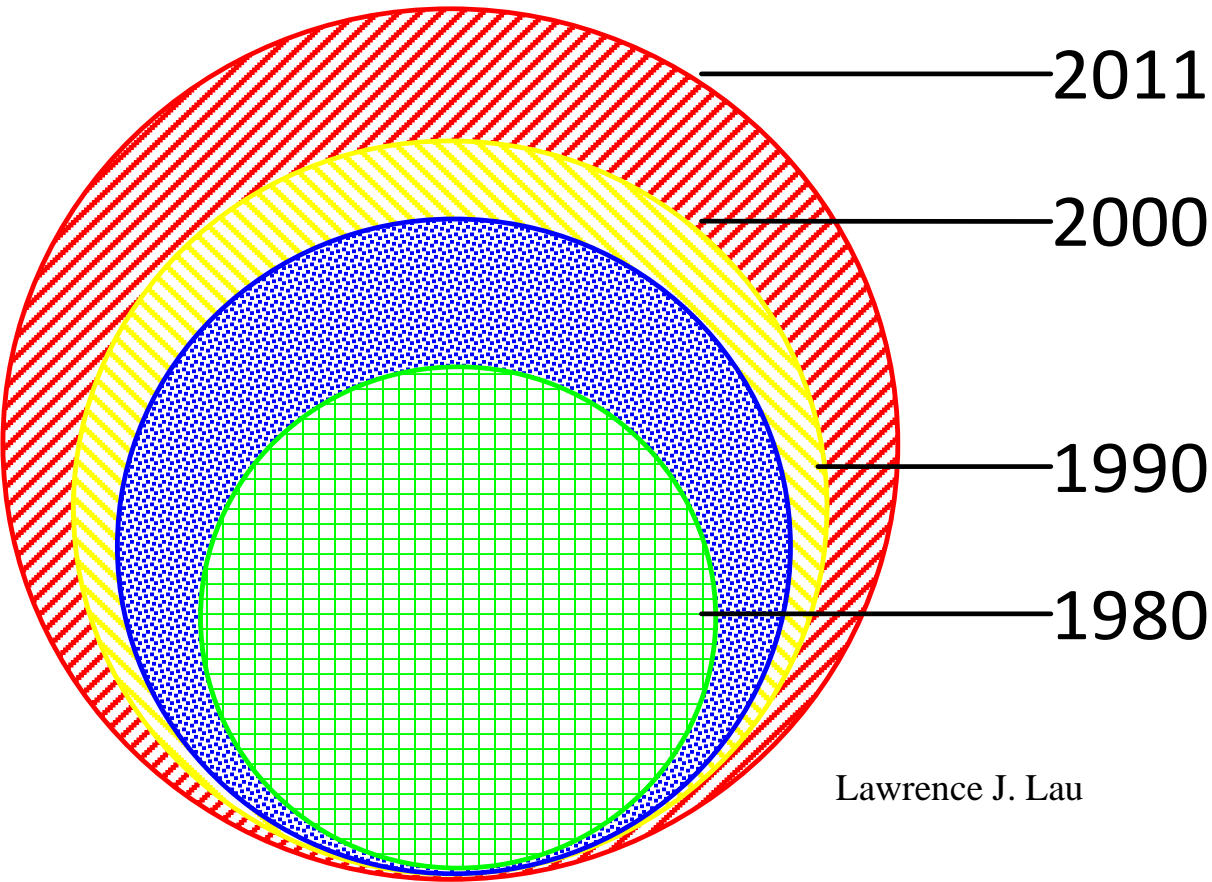


Hong Kong

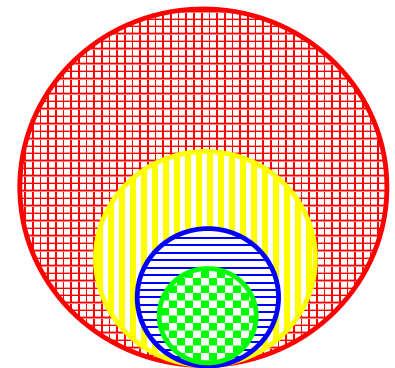


Comparison of the Real GDP-per-Capita's of Mainland and Hong Kong (2011 US\$)

Hong Kong



China



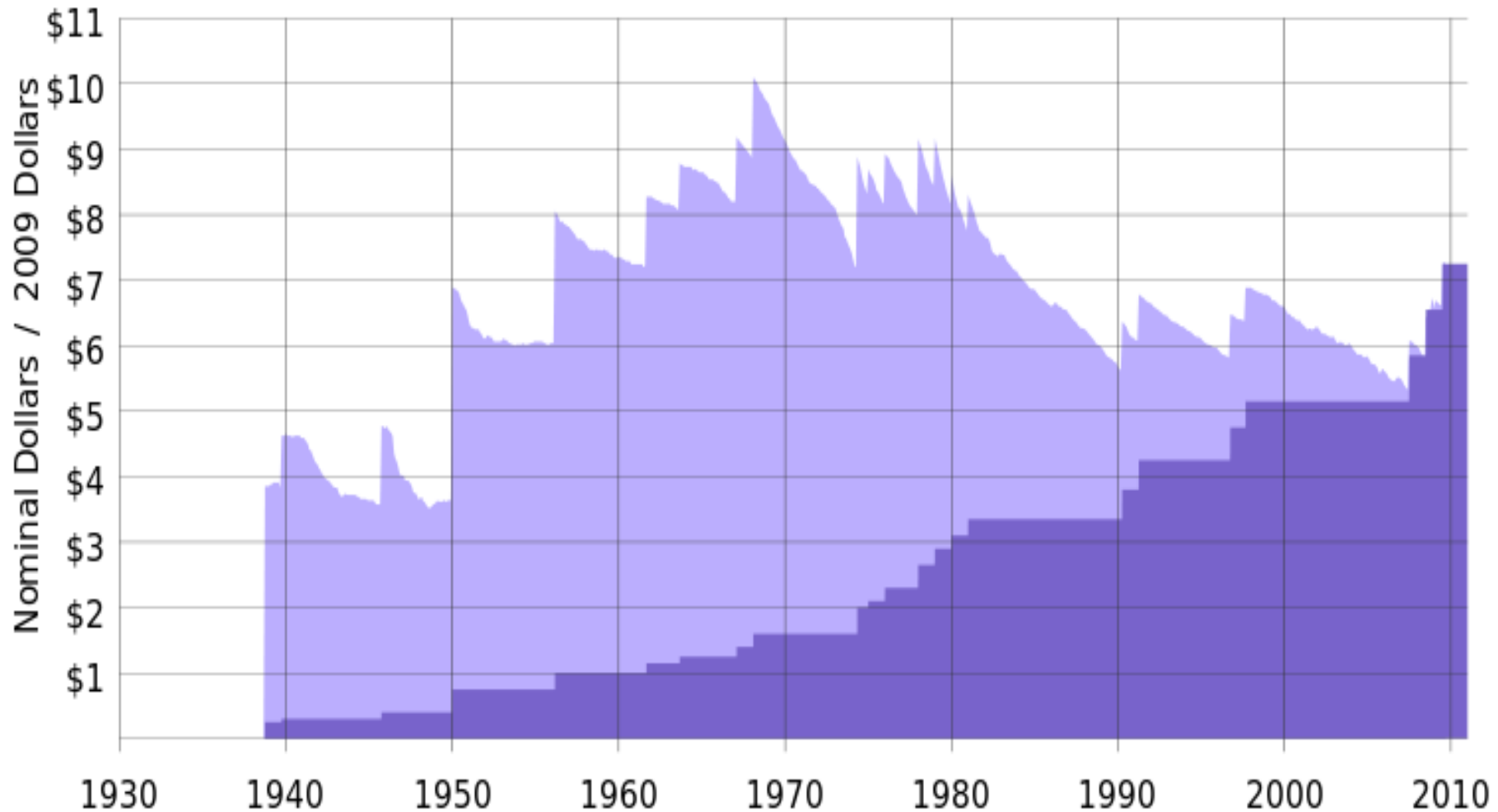
Lawrence J. Lau

Promoting and Sustaining Full Employment

- ◆ Promoting and sustaining full employment must be the most important objective of the Government of the Hong Kong Special Administrative Region. Employment (and in the longer term, education) are the only known effective means of alleviating poverty.
- ◆ Hong Kong must try to maintain its (relative) competitiveness.
- ◆ The minimum wage—HK\$28 per hour since May 2011—should be adjusted only sparingly—other ways should be used to help the working poor.
- ◆ It is helpful to the sustainability of full employment if the Government can commit to reviewing the level of the minimum wage only sparingly, like the other developed countries such as the U.S. and the U.K., perhaps only once every five years.

History of the U.S. Federal Minimum Wage, Nominal and Real (from Wikipedia)

U.S. Federal Minimum Wage



Promoting and Sustaining Full Employment

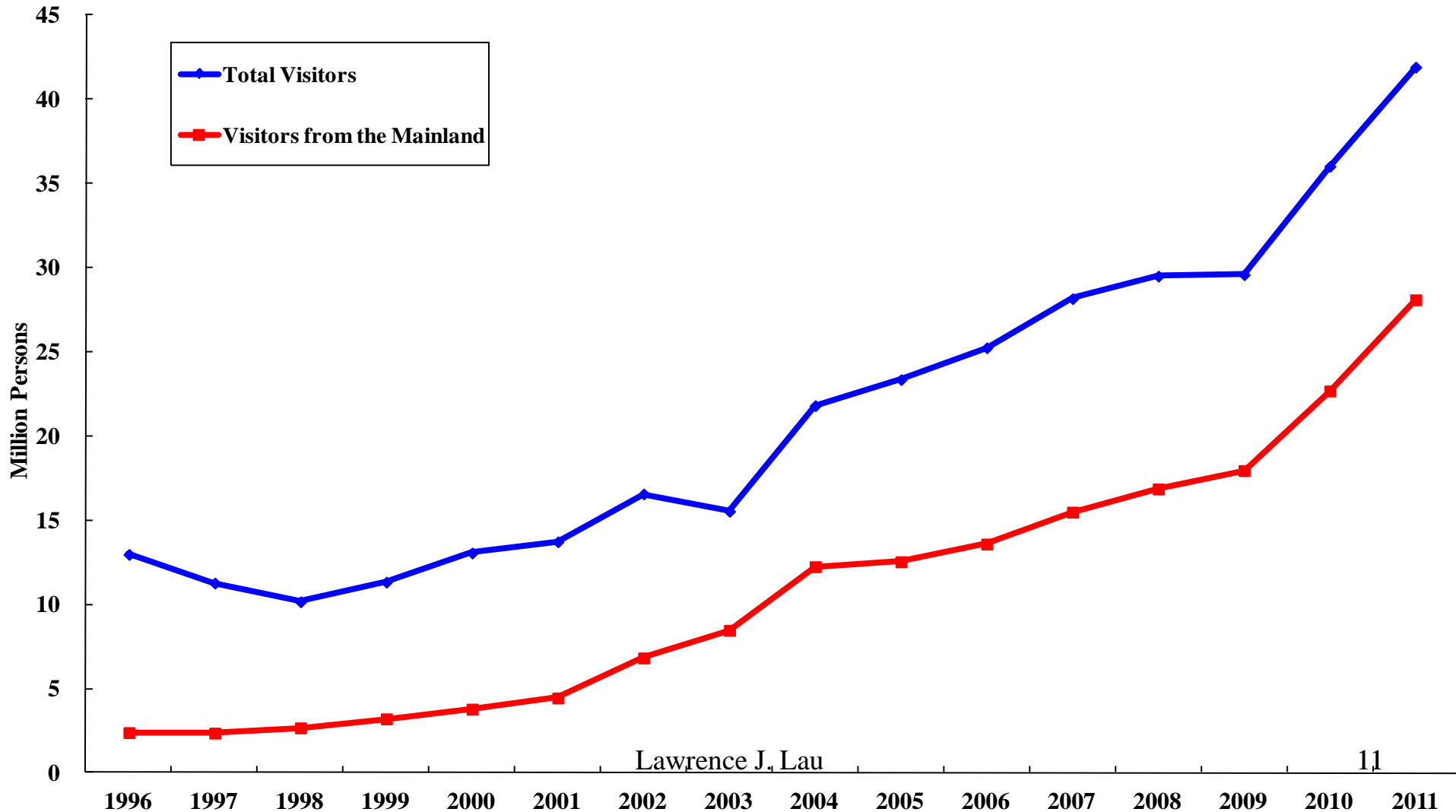
- ◆ One time adjustment of the wage rate to replace payments for meal breaks and rest days permanently in accordance with international practice but maintaining total compensation of the employee at the same level is a fair and feasible way to proceed.
- ◆ The Government should adopt measures to encourage and enable the transition of individuals from total welfare dependence—the offset to earned income on other welfare benefits should be phased in over time and should be less than one-for-one initially.

Promoting and Sustaining Full Employment

- ◆ Lowering the cost of commuting to work through an indirect subsidy without a means test—the introduction of a monthly transportation pass that is valid on the MTR and other modes of mass public transportation, with the MTR and other public transportation providers compensated by the Government. The low-income workers who have to live far away but must go to the city centre to work every day can have substantial savings.
- ◆ Lowering the cost of housing for the average Hong Kong citizen and lowering the cost of space rental for the Hong Kong enterprises, especially the small and medium enterprises by increasing the supplies. Housing is the largest and most important component of household expenditures. If its cost can be reduced, the real wage rate is in fact raised even as the nominal wage rate stays constant.

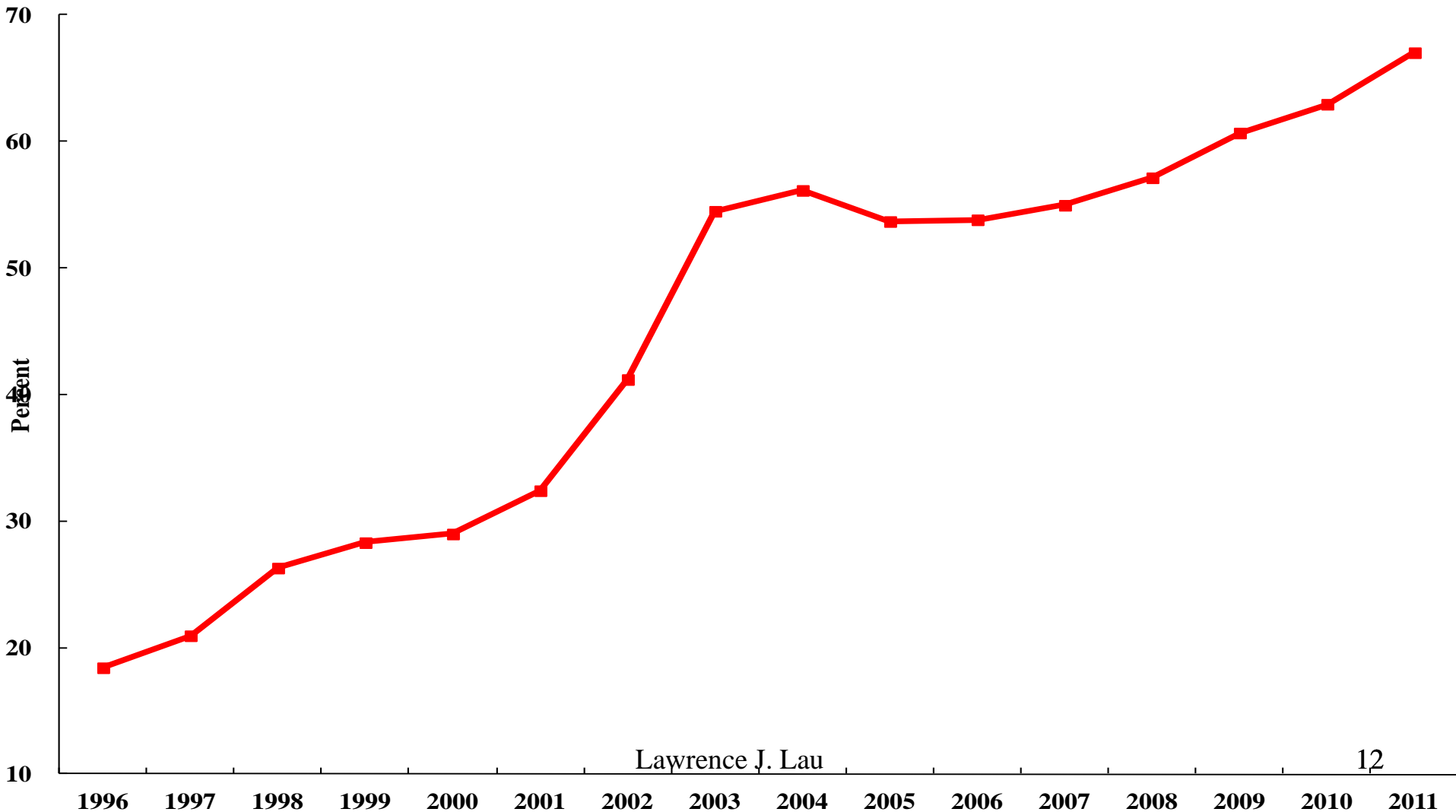
Annual Mainland and Total Visitors to Hong Kong since 1990

Annual Mainland and Total Visitors to Hong Kong since 1996



Visitors from the Mainland as a Percent of Total Visitors to Hong Kong

Visitors from the Mainland as a Percent of Total Visitors to Hong Kong



Moving Up the Value Chain

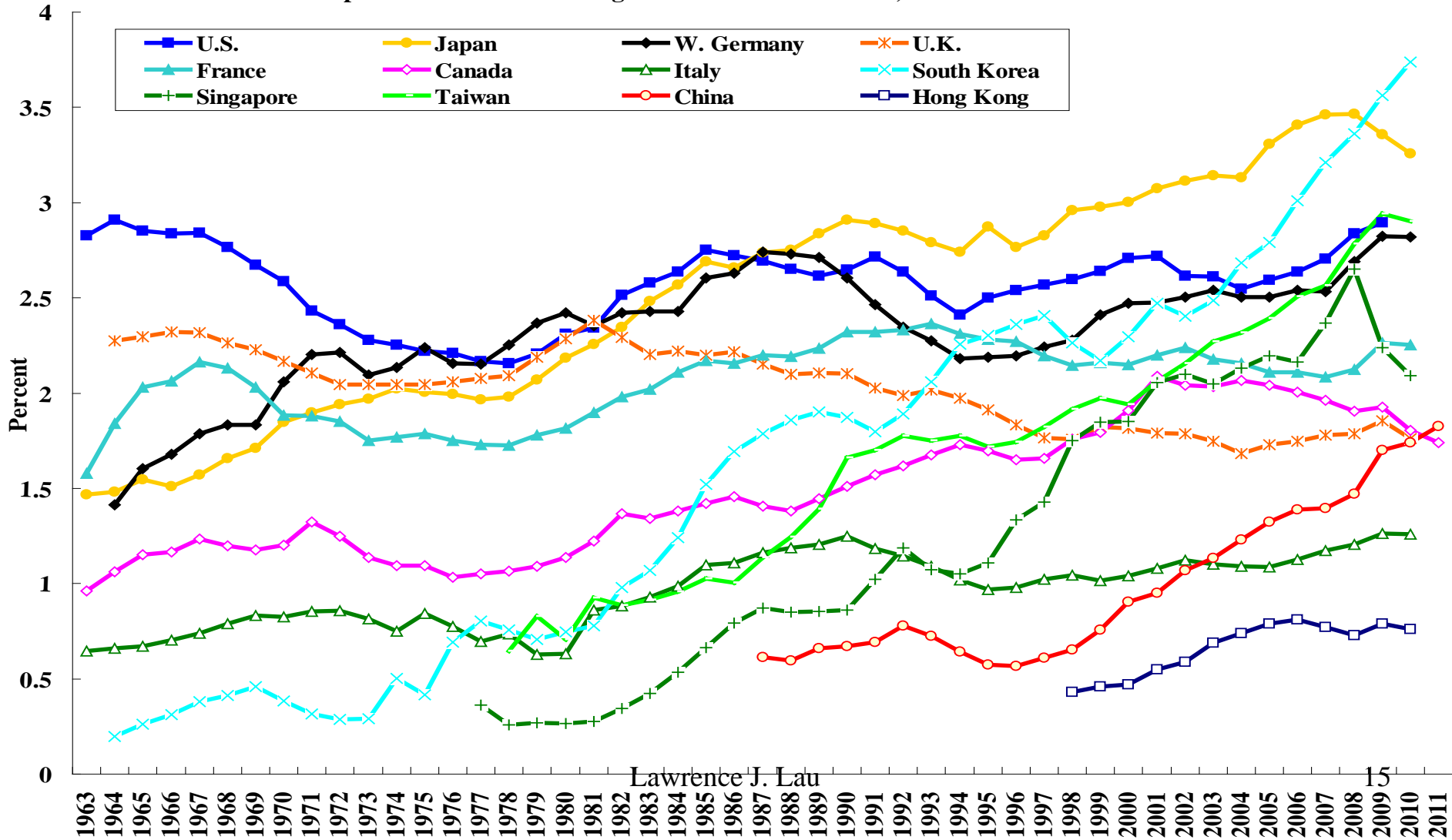
- ◆ Increasing investment in intangible capital (education and R&D, brand building), both public and private.
- ◆ I am a strong supporter of education and of government-supported basic research and tax incentives for corporate R&D in general (and of group loss consolidation for tax purposes). Hong Kong can strive to be an R&D centre for the region.
- ◆ Providing needed services at competitive costs.
- ◆ Diversifying beyond Hong Kong and Mainland China—
Hong Kong as an East-Asia-wide stock exchange, Hong Kong as an East-Asia-wide reinsurance centre. Hong Kong should strive to serve not just the Mainland, but also the surrounding Southeast Asian economies.

Moving Up the Value Chain

- ◆ Hong Kong needs double-tax agreements (DTAs) with more countries and regions so as to facilitate non-local (including the Mainland) investors using Hong Kong as a base. For example, Hong Kong does not have a double-tax agreement with the U.S. It also does not have a double-tax agreement with Taiwan.

R&D Expenditures as a Ratio of GDP: G-7 Countries, 4 East Asian NIES & Mainland

R&D Expenditures as a Percentage of GDP: G-7 Countries, 4 East Asian NIES and China



Moving Up the Value Chain

- ◆ Education can be very effective in alleviating poverty in the long run and an effort should be made to reduce the cost of sub-degrees to the students, and to expand the possibility of continuing afterwards, making use of the tertiary institutions on the Mainland and in Taiwan.
- ◆ The junior colleges in the U.S. are virtually free and give many young people a second chance at obtaining a full university degree. Hong Kong has the opposite--very expensive sub-degree programmes relative to the full degree programmes for the Hong Kong students.

Moving Up the Value Chain

- ◆ On population policy, Hong Kong should adopt a point system for immigration and open the door to the whole world, not just the Mainland, trying to attract the best talents.
- ◆ It is also important to make Hong Kong a desirable place to live. We need to build the incinerator(s), and get rid of the landfills, which cannot be good for the environment anyway.
- ◆ Replacing the coal-fired plants of our electricity providers will do wonders for the environment. Improving the public transport system with East-West routes especially in Kowloon and the New Territories will also reduce congestion and pollution.

Moving Up the Value Chain

- ◆ We need to revisit the Basic Law to make sure that children born in Hong Kong to parents neither of whom are permanent residents of Hong Kong do not have automatic Hong Kong permanent residence status. This actually brings Hong Kong's practice to virtually the same as on the Mainland: a person born in Shanghai of parents without a Shanghai household registration (hukou) does not automatically have Shanghai permanent residency.
- ◆ It is also broadly consistent with international practice: a person born in Japan to non-Japanese parents does not have Japanese citizenship or Japanese permanent residency. The same is true of the U.K. and of many countries in Continental Europe, with only the U.S. and Australia, both with a low population density, being major exceptions.

Increasing the Supply of Space

- ◆ The Government must create the expectation of long-term availability of land for housing and other purposes, and nothing should be sacrosanct.
- ◆ Do we need so much green zones and country parks when there are so many people forced to live in "cages" and unsafe, illegally sub-divided rooms?
- ◆ Do we really need to maintain so many reservoirs and their catchment areas? If we ever stop buying water from the Mainland, we shall be looking to water desalination, rather than to storing rain water all over again, for part or all of our water supply.
- ◆ We should begin a process of registering residents of "cages" and unsafe, illegally partitioned rooms with a view to eventually resettling them, just as we did with the squatter huts decades ago.

Increasing the Supply of Space

- ◆ Hong Kong should explore how to facilitate the conversion of industrial buildings to residential use. New York and London have many successful conversions of industrial lofts. I cannot believe they have lower safety standards than Hong Kong. So we should see what can be done, amending legislation if necessary.
- ◆ Hong Kong can also experiment with greater Floor-to-Area Ratios for developers building residential units below a certain size (say, 80 square meters) with strict prohibitions for combining the units. This should create more housing suitable for the use of local households.

Increasing the Supply of Space

- ◆ The Government should explore alternative sources of revenue, such as a Goods and Services sales tax, then land sales revenue would become much less important, and the land supply can be varied to stabilise and/or lower the cost of housing and space rental, as is done in Singapore.

Improving Old-Age Security

- ◆ Given the lengthening life expectancy, it is important to make sure that adequate provision is made by individuals for their own retirement.
- ◆ The Mandatory Provident Fund (MPF) should be reviewed. The principal problem with the current MPF scheme is that it does not provide anywhere nearly enough resources for retirement. And that leads to the necessity for using general revenue to support the needy elderly eventually, a financial burden that can become a huge problem for Hong Kong.
- ◆ The problem, even though it is still far in the future, can be considerably reduced to a manageable level if the average citizen who has held a job over his or her working life will have saved up enough in his or her individual retirement account at the MPF to be able to reproduce say 70% of his or her pre-retirement income.

Improving Old-Age Security

- ◆ In order to achieve this level of income reproduction, it is important to reduce the expenses as well as the marketing costs of the MPF asset managers. An extra 1% net rate of return per year over 40 years can make a huge difference. Thus, a low-cost and safe vehicle, preferably run on a non-profit basis, will be most welcomed by the working population.

The Challenges for Hong Kong

- ◆ Hong Kong will within the next ten years lose its advantage of the Hong Kong Dollar over the Renminbi as a convertible currency—the Renminbi is certain to become capital accounts convertible during this period (perhaps with some residual controls over short-term capital inflows); and when it does, it will substantially displace and replace the Hong Kong Dollar both as a medium of exchange and as a store of value even as the Hong Kong Dollar remains the legal tender as provided in the Basic Law.
- ◆ Paradoxically, the rising acceptance and use of the Renminbi, including its eventual full convertibility, can be a great opportunity for Hong Kong as a centre for Renminbi-denominated financing. That is why the ability to conduct domestic and international transactions and hence to clear and settle in Renminbi is so important for Hong Kong.

The Challenges for Hong Kong

- ◆ Hong Kong will also lose much of its advantage of a free trade port/low tariff on account of Chinese accession to the WTO. In any case, growth of Chinese exports and imports will slow as the Mainland economy further reorients itself to its own huge domestic market. Hong Kong will therefore have to rely on its other comparative advantages.
- ◆ The Mainland will catch up quickly on Hong Kong's comparative advantage in human capital as its economy continues to be globalised, its institutions of higher learning continue to improve, and the use of English becomes more and more common, at least in its major cities.

The Opportunities for Hong Kong

- ◆ Hong Kong's other comparative advantages include the rule of law, effective regulation and supervision, transparency, efficiency, flexibility and adaptability (An insurance and re-insurance centre for the region? An East-Asian wide stock exchange? An international financial center for institutional investors? A center for registration of patents and intellectual property?)
- ◆ At this time, Hong Kong also has the advantage of its reputational capital (also known as goodwill) and should capitalise on it to build a lead especially in retail services, not just in Hong Kong, but also on the Mainland, taking advantage of the Closer Economic Partnership Agreement (CEPA). Taiwan firms such as Kang Shifu, Wang Wang, Tianfu and Giant have been extraordinarily successful in building their brands in Mainland China. Chow Tai Fook of Hong Kong has also been very successful. Other Hong Kong firms should be able to do the same, beginning in Shenzhen and Guangdong.

The Opportunities for Hong Kong

- ◆ Hong Kong can also be a springboard for outbound Chinese direct investment because of its international links and highly developed service sector. It can provide the necessary accounting, legal and other services and the infrastructural support for Chinese enterprises investing abroad (through Hong Kong subsidiaries).
- ◆ The Hong Kong capital market can also provide Chinese enterprises the ability to use “natural” hedges for their outbound foreign direct investments (by, say borrowing the foreign currency in Hong Kong to fund the outbound investment thus balancing the foreign-currency assets with foreign-currency liabilities).
- ◆ In the economic transition of Hong Kong, policy support from the Hong Kong SAR Government is crucial (e.g., concluding double-tax agreements with foreign tax jurisdictions).

Concluding Remarks

- ◆ It is because of the strength of the Mainland economy that Hong Kong has been able to survive the current European sovereign debt crisis as well as the earlier 2007-2009 global financial crisis and the 1997-1998 East Asian currency crisis relatively unscathed.
- ◆ The “Individual Visit Scheme” has been instrumental in lowering the unemployment rate of Hong Kong down to its current 3.2% by providing employment for the unskilled and low-skilled labour.
- ◆ Hong Kong must try to take full advantage of its Mainland opportunities, such as those offered by CEPA, so that its economy can continue to grow, especially given that the United States and European economies remain mired in recession and unlikely to resume normal growth any time soon.

Concluding Remarks

- ◆ Can Hong Kong continue to be internationally competitive?
 - ◆ Hong Kong needs to re-examine its cost structure, whether with its high land prices, it can remain internationally competitive. It also needs to consider how to avoid the volatility of its government revenue stream going forward—how it can smooth its government revenue and expenditure. This may require a rethink and restructuring of the revenue base.
- ◆ Beyond Renminbi convertibility
 - ◆ With the U.S.\$ likely to devalue relative to the Renminbi over the intermediate to long term, despite its short-term strength, Hong Kong must prepare itself for the arrival of the full or almost full convertibility of the Renminbi.