# The Lingnan Commentary 嶺南評論

*A Quarterly Review of Economic, Business and Social Issues by Lingnan University*

*November 2002 (No.6)*


**CONTENTS**



## Editorial

## Realism and Hope about the Hong Kong Economy

There is no dispute that the Hong Kong economy is in very difficult times. In fact, Hong Kong's current problems are unprecedented. In the five years since the handover of sovereignty, Hong Kong has seen its first true economic slump ever since 1963 when official GDP growth figures were first available; unemployment has kept rising and has exceeded that of the U.K. and that of the U.S. by far, and is even threatening to catch up with that of the E.U; deflation has crept in and continued for a full four years; bankruptcies zoomed; the housing market has lost over 60% of its peak value; office prices have plummeted by even more. To the pessimistic, Hong Kong's economic future is finished. There is just no way Hong Kong can compete with Shanghai and Shenzhen with their low costs. The more direct links between Taiwan and the Mainland, as well as the alternative link via Macau, also pose threats to Hong Kong. To the optimistic, the deflation and unemployment are just taking Hong Kong one step closer to true recovery. Hong Kong has survived two major oil crises, had emerged from the crushing effects of the Cultural Revolution in the 60s stronger than ever; had gone through a major currency crisis in 1983 and multiple banking crises in the 60s, 70s, and then the 80s. While Shanghai and Shenzhen are competing with Hong Kong, they also complement Hong Kong, and rapidly rising income on the Mainland helps increase Hong Kong's exports and boost Hong Kong's financial industry.

Between these two extreme interpretations of the current situation lies a more realistic one. To think that Hong Kong must immediately undergo a relative decline until its property prices and personal incomes align with those on the Mainland is to ignore the unique advantages that Hong Kong continues to enjoy: Hong Kong's market institutions, Hong Kong's legal institutions, Hong Kong people's excellent networking with all corners of the world, Hong Kong's efficient and clean civil service, and above all, Hong Kong people's work ethic and proven entrepreneurship. To think that the ongoing deflation will automatically revive the Hong Kong economy, however, is also totally wrong and downright dangerous. It is disheartening to see that quite a number of trained economists still subscribe to the belief that provided Hong Kong's wages and salaries decline along with the overall price level and asset prices, Hong Kong will become competitive again and will then truly recover. We need to recognize that debts will not deflate. As incomes decline the risk of delinquencies on loans will rise. Hong Kong's banks and the entire financial market will then be at risk.

What, then, is the realistic view? The realistic view must be that Hong Kong must adopt a set of policies that are favorable to the economic recovery, and must dump policies that engendered and sustained the economic downturn. The competitiveness of Hong Kong depends not only on the quality of our workforce, that of our infrastructure, legal and economic institutions, but also on the quality of our policy. The SAR Government must recognize the role of misguided policy in contributing to the current economic crisis and must take solid steps to correct the misguided policies. By itself, the cabinet reform pushed by Mr. Tung Chee-hwa will not do a thing to help revive Hong Kong if the key problem of misguided policies is not addressed. The strength of a government, like that of a man, lies in a genuine willingness to reflect and to learn.

With the right policies in place, Hong Kong's legendary resilience will gradually come back. Hong Kong's economic future depends on how well Tung's new cabinet grasps the real situation and whether it is bold enough to correct the earlier policy mistakes.

*　*　*　*

*"In the next five years, we will be a government which is more accountable to the people of Hong Kong."*

*Tung Chee-hwa*