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Words from the Editor

Authoritative in Style, Analytical in Content, and Accurate in Facts and Conclusions

The Lingnan Commentary is an attempt to assert Lingnan's unfailing interest and commitment to serve Hong Kong and the world. It is a quarterly review of economic, business, and social issues by Lingnanians and Lingnan's close associates. We shall strive to provide the best analysis and commentary on the current issues of Hong Kong SAR and China. In addition, we will try to cover the world at large as well if space permits. Given our limited space, of course, we cannot cover every issue of interest in each issue. But we want to do our part in making Hong Kong one of the most beautiful places to live in—a caring and vibrant society, marked by enlightened and not just well-intended policies.

We shall strive to be careful and critical in our analysis. This means that our authors will try to build their arguments carefully and will not jump to conclusions or make pre-judgements. We will be careful not to make assertions without backing either by facts or by logical reasoning.

Readers will find that our articles cover subjects of key concern to Hong Kong people. The SAR Government has been pleading that Hong Kong people love Hong Kong (aigang) and love the country (aiguo). We totally agree and indeed take this to be our mission. Our goal is to provide the most accurate analysis and the best policy recommendations. To further this goal, we will need your support and feedback. Please send us emails and faxes, and even give phone calls. The Lingnan Commentary shall be the embodiment of Lingnanians' spirit to serve.

Hong Kong Needs a Sensible System of Bank Deposit Protection

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摘要

本港應否實行銀行存款保險備受爭議。大銀行普遍反對，其它銀行則多表贊成。反對存款保險者指它會引發道德風險，使銀行為逐高回報而罔顧風險。其實，只要採取「分數式」存款保險，銀行進行高風險投資的動機即能減少，再配合慎密的監管，存款保險絕對不會危及銀行體系的穩定性。事實上，存戶一般無法洞悉銀行運作情況，在沒有存保下，被迫存款於大銀行。大銀行恃其大反而可能會進行高風險投資，同時又給存戶較低的息率。有了存保，金管局便毋須懼怕大銀行倒閉引起的衝擊，便可以容許不當經營的大銀行倒閉。從這個角度看，設計完善的存款保險除增加銀行體系的穩定性，更可促進健康的競爭和減低道德風險。

The H.K. Monetary Authority has been advised by its consultants to introduce a bank deposit protection plan that would in the first instance provide a coverage cap of HK\$100,000. Under the proposal, only licensed banks would be covered, as restricted licence banks and deposit taking companies are not allowed to accept deposits less than \$100,000. Insurance premia are to be charged on a flat rate basis. The proposal met with staunch criticism from the bigger banks, but has been welcomed by the smaller banks. Objections are also voiced by some economists who warn of potential moral hazard problems.

To be fair, the moral hazard problems are real but often exaggerated. Depending on the design, a deposit insurance plan actually can reduce moral hazard problems and enhance competition, thus improving economic efficiency.

Much of the evidence about deposit insurance aggravating the moral hazard problem in fact merely underscores the fact that lax supervision could spell disaster. It is well known that the savings and loans debacle in the United States was associated with fraud and tax supervision much more than with risky investments. In fact, in the US federal deposit insurance has been in place since 1933, and an extremely low 1/12 of one per cent premium had been more than adequate to maintain the system through the early 1980s. Only rapid deregulation in the 80s caused problems.

Complemented with a sound system of supervision, deposit insurance will enhance stability and competition. Given the high costs of access to accurate and relevant information for bank depositors and the difficulty of interpreting even accurate information, it is unrealistic to expect bank depositors to choose banks after careful and fair assessment of all the relevant information. If professional detectives, who have the legal authority to look into confidential documents and interrogate key decision makers, cannot always spot problems and cases of fraud, the man in street certainly has little chance of self-protection through a fair assessment of the risks of banking with different banks. They will then be forced to bank with the largest banks, banks that are regarded as too big to fail. As a result, well-run, smaller banks cannot compete with the bigger banks on a level playing field. The bigger banks could invest in risky ventures with less fear of chasing away depositors. This would be another form of moral hazard.

I conclude, in the interest of stability to the banking system and the overall economy, and in the interest of fair competition, we need a system of bank deposit insurance.

Yet I agree that the design of our bank deposit insurance scheme should take account of moral hazard considerations. I recommend a bank deposit system that would provide 100 per cent protection to *all* chequing account deposits, 80 per cent protection to *all* savings deposits, and 60 per cent to *all* time deposits. I would not impose a ceiling to the protected amount.

Chequing account deposits in Hong Kong currently do not earn interest. They are not in the nature of investment and are always held only to honour payments that are expected to come due shortly. In the absence of protection creditors expecting payment may not get the expected payments and this may in turn make it difficult for them to honour their own obligations. Since depositors do not earn interest there is no question of taking bigger risks to earn higher returns. The “moral hazard” problem is irrelevant.

Savings and time deposits, in contrast, do generate income for their owners. Banks may therefore compete for deposits by offering attractive interest rates. Banks that pay a high interest rate may indeed make risky investments that yield lighter returns. Providing *fractional protection* rather than full protection up to a limit will reduce this moral hazard problem. In addition, it will reduce transaction costs for depositors, as the latter will most likely divide their deposits among different banks.

Fractional protection also has important merit. It makes it possible for the regulators to allow big banks to fail. With the understanding that depositors will get back the greater part of their deposits immediately bank regulators will have less to worry about the serious consequences of big banks collapsing. This will eliminate the “moral hazard” problem for big banks. Without bank deposit insurance, bigger banks will have reason to believe that since the authorities will not allow them to fail, they could take bigger risks in their investment decisions and still pay lower interest rates to depositors.

By the same token, full deposit insurance up to HK\$100,000 may lead to moral hazard in yet another way. Big depositors either put their money in banks too large to fail, or split their deposits among many different banks and forget about the financial health of their banks. This will not be good for Hong Kong. Covering all deposits by the same fraction is important because failing to do so may hurt innocent people who do not bank with the failing banks themselves but who are creditors to be repaid by debtors whose deposits are affected by a bank failure.

To conclude, I would like to see fractional bank deposit insurance introduced in Hong Kong and extended to restricted licence banks as well as deposit taking companies.

HOW IMPORTANT ARE CHANGES IN PROFITS TAX TO HONG KONG'S "COMPETITIVENESS"?

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摘要

香港最近流傳快要增加利得稅的消息，令部份人士感到憂慮。商界尤其關注加利得稅對本地吸引海外投資所帶來潛在的衝擊。本文嘗試探討此課題的來龍去脈，利用最近的調查數據，研究國際投資者在作出揀選投資地區的決定時，利得稅所扮演的角色有多重要。調查結果指出，在作出這些投資決定時，利得稅雖然是一個重要的因素，但它只是眾多考慮因素之一，兼且通常不是最重要的一個。此外，結果亦顯示，在稅制的眾多特點之中，稅率只是投資者所要考慮的其中一項而已。

Introduction

During the lead-up to the Budget speech in Hong Kong earlier this year, it was rumoured that the rate of company profits tax was about to be increased by half a percentage point from the current 16 percent. At the time, this tax hike seemed to be a distinct possibility, as the government had previously been making well-publicised noises about the need to find extra sources of revenue to avoid structural budget deficits.

These rumours were seemingly confirmed the day before the Budget. First, Executive Councillor Tam Yiu-chung mentioned in a press conference after an Exco meeting that there was “scope” for a profits tax hike. Then, as if to confirm everyone’s growing fears, fellow Exco member Henry Tang Ying-yen voiced his own opinion that the rate of profits tax would be increased.

In the event, as we all know, the Budget speech that Financial Secretary Donald Tsang finally presented contained no reference to an increase in profits tax. But

this was not done before vociferous warnings of the potential effects of such a hike had been made. These warnings naturally came from business-friendly quarters; by contrast, those representing other interests, such as labour, were in general much more supportive of the move.

The majority of these warnings related to Hong Kong's international "competitiveness" and the threat that the proposed tax hike posed to it. It is true that, in general, higher taxes on profits can be seen as leaving companies based in Hong Kong with less profit available for reinvestment, potentially harming their future competitive position. But in general the warnings focused on a particular aspect of international competition: the ability to attract new investment from overseas. For example, one distinguished commentator voiced his concern about competition from countries such as Singapore, which had recently reduced its tax rate. His recommendation to the Hong Kong government was that, rather than to *increase* taxes on profits, it needed to *reduce* effective tax rates in the SAR to encourage multinational investors.

The Perceived Importance of Being "Tax Competitive"

There is no doubting the growing economic importance of overseas investment as "globalisation" has taken hold. In recent years, barriers to international investment, such as capital controls and foreign exchange restrictions, have been either dramatically reduced or entirely eliminated in many parts of the world. This has led to a huge rise in the level of international investment. In the last two decades, the global rate of growth of such investment has easily outstripped the rate of increase in world output, and has even exceeded the impressive growth in world trade. Of course, this development has been reflected in the growing importance of such capital flows to individual economies. The United Nations¹ recently reported that in the UK, foreign investment in 1998 represented over 25 percent of total investment, and for Hong Kong nearly 30 percent. The importance of foreign investment is apparent in many developing countries also; in China, the figure was nearly 13 percent.

The reductions in barriers to investment mentioned above have also meant that tax differentials between countries are now perceived as increasingly important in influencing the location of investment. In such a global environment, many countries around the world have reduced their taxes on corporate profits in an attempt to attract globally footloose capital. In one of the most dramatic examples, Ireland reduced its tax rate on profits from manufacturing from its traditionally high levels to just 10 percent. Governments around the world have taken note that many of these countries have subsequently achieved impressive inward investment and strong economic growth (Ireland is now the "Celtic Tiger"!). Although it may be naïve to attribute such success stories

¹ Statistics and analysis from UNCTAD's World Investment Reports 1999 and 2000. New York: United Nations.

only to tax reductions, the impression remains that being "tax competitive" is now crucially important to a country's economic well being.

But How Important is Taxation in Influencing Investment?

In light of the above, it is perhaps not surprising that a proposed increase in the taxation of profits in Hong Kong, which appears to threaten foreign investment, is met with some alarm. But to what extent is this response justified? An answer to this question is important as it may affect the decision as to whether any increases in government revenues should come from profits tax or from other sources, such as a sales tax. This article attempts to shed some light on the matter by providing recent evidence as to how important a role the taxation of profits plays in the investment location decisions of international investors.

Intuitively, one would expect the taxation of profits to affect investment location decisions. Companies will, *everything else being equal*, wish to invest in the least cost environment, since this will provide them with the largest returns on their capital. As taxation is likely to be a significant component of the charges against profits of most companies, corporations will prefer to invest in countries which charge the lowest taxes on investment income. Not only does raising taxes deter new investment by multinational corporations, but it also encourages the withdrawal of existing investment, to be relocated elsewhere in a more tax-friendly environment. Conversely, reducing taxes encourages funds from overseas. Indeed, much quantitative research (primarily concerning capital flows into and out of the US) appears to support this.²

It seems therefore that on the face of it there are good reasons for Hong Kong to remain tax competitive by avoiding an increase in profits tax. However, there are two significant problems with the argument that such an increase will necessarily affect levels of inward investment.

The first of these relates to the fact that not only the country hosting the investment may wish to tax profits from that investment. The "home" country, that is, the country from where the investing company comes, may wish to do so too, although normally only when the overseas income is repatriated. This of course can lead to a situation where the same income may be taxed twice by different countries. To avoid this, many home countries allow taxes paid in the host country to be credited against taxes payable on the same income in the home country (although no "refunds" are ever given if host country taxation is greater than home country taxation). In such cases, what this means in practice is that the company's total tax bill (that is, home plus host country taxes) on

² A useful review of the quantitative literature can be found in The Report of the Committee of Independent Experts on Company Taxation, chaired by O. Ruding, March 1992. Brussels: European Commission.

income from overseas investment is set by the tax regime of either the home or the host country, whichever is the higher. In the case of low-tax Hong Kong, this normally means that the total tax bill of a foreign investing company is likely to be determined by the taxes of its home country.

Thus, changes in the size of the Hong Kong tax bill alone may not affect the company's total tax charge: the effect of raising or lowering profits tax in the SAR may simply be to alter the distribution of the tax revenue between the host and home governments. This is of particular relevance, since the countries that have exported the most capital to the SAR in recent years, China, the US, Japan and the UK, all practice this system of tax credit to some extent.

There is a second problem with the belief that, all other things being equal, an investor will invest in the lowest tax country: the fact that all other things are rarely equal. For a start, there are normally many considerations involved in these decisions other than costs, such as the size of the potential market or the political stability of the country. Even if one considers only costs, there are many costs other than taxation involved, such as those for transportation and labour.

The Views of International Investors

In order to obtain an understanding of the importance of taxation on investment location, it is therefore useful to compare its importance with that of the other factors involved in the decision. An appropriate way to do this is to survey decision-makers as to their experiences when choosing an investment location, and indeed several such surveys have been undertaken in recent years. In many cases, taxation was found to be high on the list of factors. However, in others, the greater importance of factors such as labour costs, exchange rate considerations, and, for emerging economies such as China, the size of the potential market was stressed.

A problem with previous surveys has been that the list of factors scrutinised has been less than comprehensive. An effort to improve upon this was undertaken by the author in February last year in a survey of executives from 600 of the world's largest multinational corporations.³ The executives were given a list of 23 factors, including the taxation of profits (and an open item in case any important factors had been missed). They were then asked to rate the importance of those factors on a scale of 1 to 10 (1 = not at all important, 10 = extremely important). The results were as follows (only the top 12 factors out of the 23 are shown):

Importance of Various Factors in the Investment Location Decision

Ranking	Factor	Average Response
1	Political stability of the country	7.73
2	Size of local market	7.47
3	Proximity to markets	7.37
4	Environment in that country	7.34
5	Transparency/predictability of legal and regulatory framework	7.16
6	Quality of infrastructure, communication, etc.	7.11
7	Availability and quality of labour	7.05
8	Taxation of profits	6.66
9	Avoidance of obstacles to importing to that country (tariffs, quotas, other restrictions)	6.62
10	Other strategic aims	6.50
11	Incidence of corruption in that country	6.41
12	Availability and cost of other basic inputs	6.03

The overall impression from the survey results, consistent with prior studies, is that taxation is only one of many factors involved in investment location decisions, and that although important in those decisions, it is generally not the most important one. For investment into Hong Kong, the above survey results reinforce a common perception: that the inflows of capital are likely influenced much more by the market potential (the second and third placed factors), especially that of neighbouring China. The fact that political stability and macro-economic conditions are also significant factors has been borne out on several occasions in Hong Kong's recent history, with investment levels dropping sharply in times of political uncertainty and in the recent economic downturn.

Nevertheless, the above evidence implies that tax is important to investors, and at least partly justifies the pre-Budget warnings that an increase in Hong Kong profits tax would scare off overseas investment.

One more point, however, should be made here about the proposed tax hike: it concerned only a rise in the *rate* of tax. Even if tax is accepted as a significant factor in investment location decisions, the rate of tax is only one out of many attributes of the profits tax system which are relevant to foreign investors. Other attributes, such as the breadth of the tax base, or the transparency of the system, are likely to be relevant too.

In the survey mentioned above, the executives were also asked, on the same scale of 1 to 10, to evaluate the

³ See "Corporate Taxation and the Investment Location Decisions of Multinational Corporations" by the author in *The Asia-Pacific Journal of Taxation*, Spring 2000.

importance of the various corporate tax system attributes when evaluating the attractiveness of the system with regard to potential investment. The results were as follows (all 13 attributes surveyed are shown):

Importance of Corporate Tax System Attributes in the Investment Location Decision

Ranking	Factor	Average Response
1	Transparency of the tax system	7.64
2	Predictability of the tax system	7.61
3	Statutory tax rate	7.50
4	Availability and extent of relief for double taxation	7.33
5	Predictability and consistency of tax judgements and interpretations by the courts	7.30
6	Rate of withholding tax on repatriated profit	7.27
7	Other benefits from existence of relevant tax treaties	6.40
8	Availability and size of allowances, deductions, etc.	6.24
9	Special tax incentives for investment (e.g. tax holidays)	6.05
10	Ease and cost of complying with tax legislation	5.97
11	Availability and extent of loss relief	5.71
12	Effectiveness of tax collection	5.33
13	Comprehensiveness and effectiveness of anti-avoidance legislation	5.31

From the above table, it can be seen that the tax rate, in third place, is indeed considered one of the most important attributes. However, so too are certain general qualities of the tax system, that is, transparency, stability and consistency. It is noticeable that in the case of many of the attributes found here to be most important, the Hong Kong profits tax system compares favourably with other jurisdictions. For example, its system is stable and (with some major exceptions concerning the source of profits) transparent and predictable. It offers comparatively low rates of tax. In sum, the SAR would seem to have a very attractive tax regime for investors, with its low rate of tax being only one out of many investor-friendly characteristics.

Some Concluding Remarks

So, what can be concluded from the above about the recent warnings of the effect of the rise in the rate of profits tax on investment? It should be said from the outset that the threatened rise was a small one, and thus in itself unlikely to change investors' decisions. Also, it has been seen that, due to the nature of international double tax relief, such a rise may not effect the eventual total tax burden on foreign investors. When it is further considered that taxation is only one, and probably not the most important, of several potential influences on investment location, the tax rate hike which caused such consternation a few months ago may appear less threatening to the SAR's ability to attract capital.

However, it would be prudent not to underestimate the possible effects of such a hike on inward investment. Even though the rate of tax is only one attribute of the tax system potentially considered by investors, the survey results have shown that it is one of the most important. Its "headline" quality is likely to be important in forming investors' immediate perceptions of the severity of the tax system. The results of the survey also emphasize the importance of the predictability of the tax system. Business thrives on certainty, as such a quality is crucial in assuring foreign investors that their investment returns are not to be endangered by future adverse tax developments. Hong Kong's tax system has been remarkably stable over the years, and this stability is clearly one of its most attractive features. If investors view a rise in tax rates, no matter how small, as a portent of more serious developments to come, it will pose a threat to this important feature of the Hong Kong tax system. The danger warnings issued in the run-up to the Budget will then be seen to be justified.

西部大開發的戰略動向

趙農

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Abstract

China will soon officially incorporate the West Development Strategy into its Tenth Five Year Plan (2001-2005).

This arrangement will certainly engender widespread recognition and support for the strategy. Recent policy pronouncements show that apart from escalating its commitment of fiscal resources to promote the cause of developing the great west, the Chinese Government will further open up the region to foreign investment and will further push through its market reforms. China's commitment to develop the great west through both policy and investment has provided a solid basis for profitable ventures for the private sector and particularly for foreign investors. It is expected that

investment will focus on the densely populated and the resource-rich areas. The sectors that stand to benefit include financial services, research and development in high tech industries, resource exploitation, and infrastructure development. Given the favourable policy and commitment of the Chinese Government to the cause of developing the great west, a rising tide of investment can be expected.

中國西部大開發戰略將納入“十五”計劃之中，從而構成一項具有廣泛認同基礎的長期國策。從近期公佈的政策內容來看，中國政府將在加大財政轉移支付力度的同時進一步擴大西部地區的對外開放與市場化改革。中央政府將以不可逆的投資明確傳遞該項戰略堅決實施的信念，而市場准入條件的放寬又外資和民間經濟贏利性的改善提供了相應的基礎。預計投資的區域將集中在人口稠密、資源豐富、擁有潛在市場需求的部分省市，投資的方向將主要確立在金融服務、高新技術研發、資源的開發和利用、基礎設施建設等領域。中央政府關於西部大開發統一政策的制定與落實，勢必掀起西部投資的熱潮。

中國西部大開發戰略的實施受到海內外的高度關注。它既國內社會公平目標的實現提供了可行的手段與途徑，還投資者創造了無限商機。從現實的情況看，西部大開發戰略在規劃的層面上更加顯現出它的規範性和重要地位，在戰略的實施上呈現出堅決和不可逆轉的態勢。作擬訂中的“十五”計劃的重要組成部分，西部大開發戰略將被確定一項具有廣泛認同基礎的長期國策；而中央政府選定的“十大工程”和“退耕還林（草）”等專案的運作和落實也進一步體現該項戰略的可信性。

隨著該項戰略的逐步展開與中國加入 WTO 的日益臨近，中央政府已決意加大西部開發的政策支援力度。不久前，在 2000 西部開發論壇會議上，國務院西部開發辦公室的有關負責人公佈了政策的主要內容，其包括：（1）加大財政轉移支付力度；（2）加大金融信貸支援，比如，重點支援鐵路、主幹線公路、以及大中型能源專案建設，適當延長貸款期限，提高開發銀行新增貸款用於西部地區的比重，擴大以基礎設施專案收費權或收益權質押發放貸款的範圍；（3）加大改革力度，即深化國企改革，搞好國有經濟的戰略性調整和資產重組；引導非公有制經濟加快發展，凡對外商開放的投資領域，原則上允許國內各種所有制企業進入；（4）擴大對外開放，即鼓勵外商投資於西部地區的農業、水利、生態、交通、能源、市政、環保、礦產等基礎設施建設和資源開發，以及建立技術研究開發中心；擴大西部地區服務貿易領域的對外開放，將外商投資於銀行、商業零售企業、外貿企業的試點擴大到直轄市、省會和自治區首府城市；允許西部地區外資銀行逐步經營人民幣業務，並投資於電

信、保險、旅遊業、興辦中外合資會計事務所、律師事務所、工程設計公司、鐵路和公路貨運企業、市政公用企業等；（5）實行稅收優惠，即對設在西部的國家鼓勵類業的內、外資企業，在一定時期內，減按 15% 的稅率徵收企業所得稅；對在西部的 newly 交通、電力、水利、郵政、廣播電視等企業以及新辦高新技術企業，企業所得稅實行兩年免稅，三年減半徵收；（6）拓寬利用外資渠道，即擴大西部地區以 BOT 方式 TOT 方式利用外資的試點，允許外商投資專案開展包括人民幣在內的專案融資，支援企業通過轉讓經營權、出讓股權、兼併重組等方式吸引外商投資；鼓勵在華外資企業到西部地區再投資，其再投資專案外資比例超過 25% 的，享受外商投資企業待遇，對外商投資西部地區基礎設施和優勢業專案，適當放寬外商投資的股比限制。

從以上政策的具體內容中不難發現中央政府的主要意圖。第一、加大財政轉移支付與金融支援的力度，著重要表明西部大開發戰略的可信性，中央政府通過不可逆的投資向世人做出率先進入的承諾，以此證明該項戰略決非屬於誘致外部資金單方涉入的“空手道行”，投資本身旨在西部經濟“潛能”的釋放創造更好的條件。第二、政府將自身的投資行有重點地限定在基礎設施、生態環境保護等領域，在原則上讓開資源開發和其他競爭性領域，以使民間經濟能夠獲得更大的贏利空間。第三、對於向外資開放銀行、電信、保險、旅遊等服務行業和公用事業等領域，以及放寬外資股比限制等，旨在加大開放的深度，這也是我國加入 WTO 的有關市場准入承諾在地區的履行上所體現的非歧視原則；這一舉措有助於減輕或消除投資者在“入世”後對於東部投資機會的偏好，使得西部地區能夠成同等獲利程度的投資場所。第四、稅收優惠政策實質上反映出中央政府對於西部地區整體投資環境較差事實的一種承認、以及由此對於投資者贏利性上的一種補償；而鼓勵非公有經濟的發展則試圖提供更公平的競爭環境。第五、上述政策作一種中央政府的統一政策，是要避免西部各地在優惠政策上“層層加碼”從而形成市場割據的可能性。東部地區曾經發生的低水平重復投資、生平面擴張等現象，就與各地的“優惠大戰”及政策的不統一密不可分。

上述政策的出臺將進一步掀起西部投資的熱潮。其實，自西部大開發戰略實施以來，外商對於西部地區的投資興趣日漸增加。迄今，世界 500 強中已有 80 餘家企業在我國西部地區投資或設立辦事機構；以四川省為例，就有微軟、康柏、安然、殼牌、日本神戶制鋼所、國際金融公司、英國商聯保險等著名跨國公司與之簽訂投資與合作協定。跨國公司旨在謀求長期利益，西部的資源與潛在的市場成這些公司持久獲利的主要依據。因此，投資的分佈偏重於

人口較 密集且高素質勞力較 集中的省區（如重慶市、四川省、陝西省），比如，美國 IBM 公司以資助等形式與成都、重慶、西安三地的多所大學建立了廣泛的合作關係，在西安投資 2000 多萬美元搭建大型軟體發展平臺，還與我國西部最大的軟體企業四川托普洽談合作事宜。投資方向則主要集中在資源開發、高新技術、環保等領域，比如，美國安然公司在成都投資設立了四川嘉陵電力有限公司，最近又計劃與國內大企業合作投資開發四川天然氣資源；日本三井物產株式會社正積極介入成都垃圾焚燒發電、四川廣安電站等能源開發和環保建設專案。

可以預見，西部大開發的新政策將促使西部外商投資領域與投資規模的顯著擴大。銀行、保險、電信、旅遊 以及其他專業性服務（會計、律師事務所業務），將成 下一輪投資的熱點。據悉，諸如法國巴黎銀行、美國花旗銀行、英國 豐銀行、日本富士銀行、東京三菱銀行、英國商聯保險公司、東京海上保險公司、紐約人壽保險公司、美國聯邦快遞公司等服務業巨頭雲集西部開發論壇，其表現出較大的投資意願。此外，諸如“西氣東輸”、“西電東送”等巨型專案也引起跨國公司的高度關注，或許這類專案的高投資與穩定性恰好符合跨國公司的特性。稅收優惠還可以促使外商在給定領域的投資增加。不過，國有企業經營權的轉讓、股權的出讓、以及外資股比的提高固然可以增加外商投資的選擇度，但由於外商對國企弊端、證券市場不完善和與政府磨和所致拖累的擔憂，針對外商投資于國企改造的力度不應抱有過於樂觀的估計。

總之，西部大開發戰略尚處於政策導向的階段。儘管政策支援力度的加強無疑會推動該項戰略的深入實施，但是只有當決策者面臨較 恒定的法治環境時，其決策才能在相對確定的預期比較中審慎做出，其行 才具有長期理性的約束和規範。這顯然有待於中央政府將西部大開發戰略構築在堅實的法律基礎上，同時要求西部地區必須推進整體的市場化改革。值得欣喜的是，西部許多城市已在市政等領域加大了改革的力度，西部大開發正沿著法治的軌道向前邁進。

中國經濟增長呈現重大轉機

劉樹成 常欣

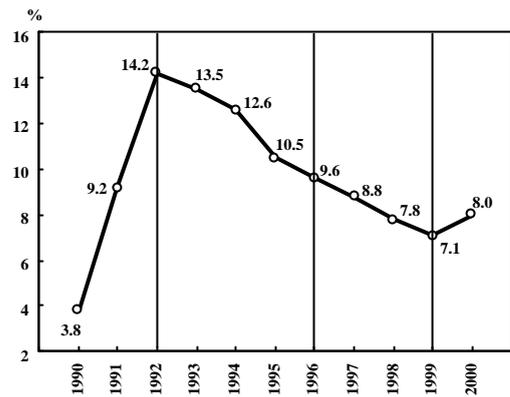
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常欣，中國社會科學院經濟研究所博士）
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Abstract

In the year 2000 economic growth in China reversed a downward trend, that had lasted some seven years. In

the 90's four phases of development can be discerned. 1991 to 1992 is a phase of vibrant growth and overheating. 1993 to 1996 is a phase of macroeconomic adjustment under austerity measures, which eventually achieved soft landing. 1997 to 1999 is a period of continuous downward adjustment. Finally, starting in 2000 is a new phase of faster growth, estimated at 8% for that year. This article discusses three causes for this development, and expresses optimism that economic growth in China from now on is likely to be more steady, more lasting, and somewhat faster.

2000 年，中國經濟增長扭轉了連續七年的下滑之勢，出現了新的回升或重大轉機（見圖和表）。進入 2001 年後，中國經濟有望保持這一新的增長勢頭。



年份	GDP 增長率 (%)	商品零售價格上漲率 (%)
1990	3.8	2.1
1991	9.2	2.9
1992	14.2	5.4
1993	13.5	13.2
1994	12.6	21.7
1995	10.5	14.8
1996	9.6	6.1
1997	8.8	0.8
1998	7.8	- 2.6
1999	7.1	- 3.0
2000*	8.0	- 1.0

*2000 年 預計數。

90 年代，中國經濟的增長和波動可以分 四個小階段：(1) 1991 - 1992 年的兩年。經濟增長越過上一輪波動的低谷，進入新一輪波動的上升期。經濟增長率從 1990 年的 3.8%，上升到 1992 年 14.2% 的高峰。兩年內，經濟增長率上升跳躍了 10.4 個百分點。經濟增長出現過熱狀態。(2) 1993 - 1996 年的四年。實行緊縮性的宏觀調控政策，經濟運行成功地實現了“軟著陸”。經濟增長率由 1992 年 14.2% 的高峰，回落到 1996 年的 9.6%，共回落 4.6 個百分點，平均每年回落 1.15 個百分點。與此同時，物價上漲率從 1994

年 21.7% 的高峰，回落到 6.1%。(3) 1997 - 1999 年的三年。按照 1953 年 - 1990 年中國經濟歷次波動的情況，經濟增長率的下落期最短的 1 年，最長的 4 年，平均 2.75 年。依此，1996 年實現“軟著陸”後，經濟增長率本應止滑企穩，或止跌回升，然而又繼續下滑了三年。從 1996 年的 9.6%，下滑到 1999 年的 7.1%，又下滑了 2.5 個百分點，平均每年下滑 0.83 個百分點。與此同時，出現了通貨緊縮趨勢。(4) 2000 年，第一到第三季度，經濟增長率達到 8.2%，全年預計 8% 左右，終於呈現出回升的轉機。

弄清 1997 - 1999 年中國經濟增長率繼續下滑的原因，有助於我們把握今後中國經濟增長的特點。這幾年的下滑，實際上反映出經過改革開放 20 餘年的歷程，中國經濟運行的大背景已經發生了重要變化。其一，中國經濟與世界經濟的聯繫更加緊密。這一方面有利於促進國內經濟的增長，另一方面也使國內經濟的發展受到國際經濟動蕩的衝擊和影響。1997 年的亞洲金融危機，對中國的對外貿易和引進外資都生了嚴重影響。其二，長期以來商品短缺狀況基本結束，出現了買方市場格局。這一方面是綜合國力提高的結果，另一方面也 經濟增長率的回升帶來一定的難度，對 業結構的調整和升級提出了新要求。其三，市場取向的經濟體制改革取得了實質性進展，預算約束趨於硬化。這一方面有利於抑制長期存在的投資饑渴和盲目擴張衝動，另一方面也 需求回升特別是民間投資的回升帶來一定的難度。

這些重要變化預示著 2001 年後中國經濟增長與波動可能會呈現出與過去不同的新特點。按照 1953 年 - 1992 年中國經濟歷次波動的情況，經濟增長率的上升期最短的 1 年，最長的 3 年，平均僅 2 年；波峰年份經濟增長率的平均值高達 14.4%。今後，在新一輪波動的上升期，經濟增長率的回升不會像過去那樣短促和過高，回升的持續時間將會延長，回升的速度將會相對平穩和較快。這是因：(1) 從需求面看，投資需求和消費需求盲目擴張的體制基礎已經改變，在預算約束趨於硬化的條件下，建立與完善適應市場經濟要求的民間投資正常形成機制和居民消費正常形成機制，要有一個過程。(2) 從供給面看，在買方市場格局下，需要 業結構、 品結構的新突破來打開新市場，而經濟結構的調整也有一個過程。(3) 提高國民經濟與社會的資訊化，實施西部大開發戰略，推進城鎮化發展進程，以加入 WTO 契機的全方位對外開放，中國經濟在未來五到 年內繼續保持較快的增長勢頭提供了可能。(4) 繼續實施積極的財政政策和穩健的貨幣政策，努力培育和發展資本市場，也有利於保持經濟的快速、健康增長。

Small and Medium Private Enterprises and their Financing Constraints in the People's Republic of China

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摘要

在內地的中小型私人企業在為投資項目而籌集資金上，往往遇上以下的問題：中小型私企往外籌集資金的成本會遠高於使用企業的內部資金的成本。原因有二：(1)資本市場存在著一些缺陷，例如交易成本，資訊不對稱（Asymmetric information）和管轄代理問題(Agency problem)。(2)歷史上，借貸政策的偏差問題難以在短期內靠現在的金融改革而解決。加入世界貿易組織之後，內地的金融制度將會慢慢演變成漸近西方發展國家的體制，但這種發展不會完全解決因為資本市場的缺陷所造成的外部集資成本偏高的問題。中小型私企將面對更強烈競爭，勢必大大削低它們的營利及累積內部資金的能力，所以入了世貿組織後，中小型私企所面對的集資困難將會更大。

According to the celebrated Modigliani-Miller theorem, financing an investment project via internal or external funds is a matter of irrelevance should capital markets be perfect. However, in the presence of asymmetric information and agency problems, imperfections prevail in the real-world capital markets, making the costs of external financing much higher than those of internal financing. This may lead to under-investments for cash-constrained firms. Private enterprises in the People's Republic of China particularly face this under-investment problem in that they normally have difficulty in obtaining enough external funds to exploit profitable investment opportunities.

The essence of the Modigliani and Miller theorem is that a firm's capital structure and financial policy can be replicated by individual investors on their own accounts in perfect capital markets. Financial structure (liquidity, leverage, dividend payments, etc.) as such creates no firm value and thus an enterprise should regard internal and external funding as perfect substitutes of each other.

In the real world, capital markets are far from perfect. Three factors, namely, transaction costs, asymmetric information, and agency problems, attribute to a well-documented financial hierarchy wherein firms prefer internal financing to external financing via debt and equity. First, transaction costs of issuing debt and equity can be high. These costs include compensation for underwriters, registration fees, taxes, and accounting costs.

Second, asymmetric information can generate significant cost disadvantages of external financing. Management of a firm typically has information about the return of its project which is unavailable to outside

investors. Because investors cannot distinguish between good and bad projects, they price every issue as if the project return was average. This implies that a firm with a good project is obliged to issuing under-priced securities, thereby resulting in higher costs of external financing than those of internal financing. Asymmetric information between enterprises and potential suppliers of external funds is also the source of adverse selection and/or moral hazard problems in credit markets. Increases in interest rates cause enterprises with good investment prospect to leave the applicant pool (adverse selection) or induce enterprises to switch to riskier projects (moral hazard). As a result, potential lenders may prefer to ration credit. All these suggest that external financing, in the presence of asymmetric information, is either rationed or available at a premium.

Third, the presence of agency problem may also induce a cost premium to the use of external funds. Under the asymmetry of information, managers of an enterprise may pursue their own interests at the expense of the stockholders and bondholders. This conflict of interests can boost the cost of obtaining external funds as outside shareholders attempt to control management behavior through the use of audits, budget control, and incentive systems designed to align the managers' interests with theirs. These actions impart a cost premium to the use of outside equity, reflecting both the direct costs of monitoring management and the losses of profit opportunities due to reduced management flexibility. Debtors also face similar risk as management actions may dissipate enterprise resources and erode the value of existing debt by undertaking excessively risky projects. Debtors as such may demand covenants which restrict management behavior in various ways. These restrictions and the monitoring required for contractual enforcement constitute the agency costs of debt.

As external funds are more costly, academics propose a pecking order framework which suggests that enterprises finance their funding needs in a hierarchical fashion, first using internally available funds, then followed by debt and outside equity. When internal and external financing are imperfect substitutes of each other in the presence of capital market imperfections, investment decisions of an enterprise will be constrained by the availability of internal funds. Moreover, financing constraint impacts different enterprises unequally. Small and medium enterprises are expected to face an even higher cost in accessing external funds as compared with large and well-established enterprises. Therefore, small and medium private enterprises end up being more dependent on internal funds in financing their investment.

As economic conditions in a transition economy such as China are different from those in developed market economies, the role of internal financing in determining the level of investment can be different from what may apply to firms in developed economies. The capital markets in transition economies are either not available or underdeveloped. Therefore, enterprises in transition economies are all heavily dependent on bank credit, which is probably the only source of external funds,

for financing fixed investment. Banks are mainly owned and controlled by the state even though decentralization and devolution have been carried out rapidly in the other sectors of these economies. Since the non-state sectors in these economies were much smaller than the state-owned sectors before the implementation of economic reforms, the allocation of credit was always biased in favor of state-owned enterprises. Such a 'lending bias' in favor of these large state enterprises will continue even though the banking reform has been carried out.

Small and medium private enterprises in China are not totally helpless despite the fact that they have more difficulty in obtaining external finances as compared with large and established enterprises. Small and medium private enterprises are relatively more efficient than their larger state-owned counterparts. Given their managerial efficiency, they may be able to generate large enough cash flows to finance their fixed investment. Moreover, these small and medium enterprises can also borrow from the informal credit market, notwithstanding the fact that they can only obtain very limited bank credit from the formal banking institutions.

In the future, there are two major factors that will substantially change the current status quo. First, China's expected entry into the World Trade Organization will lead to a substantial elimination of trade barriers such as tariffs and quotas, which may erode the profits of these small and medium enterprises in the non-state sector when imported products are supplied at lower prices. In this case, they may be unable to generate enough internal funds for fixed investment in a more competitive environment.

Second, reforms in the financial sector may not improve the supply of external funds to small and medium private enterprises in the non-state sectors. Current reforms in the financial system are pushing the state banking system to operate in a more efficient way and pay more attention to the risk management in credit allocation. When the state banking system is operating more like those in developed market economies, small and medium private enterprises in China may face similar constraints in accessing external funds due to capital market imperfections. Moreover, as more foreign banks will be allowed to take Renminbi deposits, the supply of loanable funds to small and medium private enterprises through the informal credit market, which is expected to be replaced by formal credit market, will be reduced as well. When small and medium private enterprises receive less credit from both the formal and informal credit markets in the next wave of financial reforms, they may find it difficult to finance their fixed investment. An active government policy on small business development which helps them to obtain external funds may be a necessary component of the overall economic reform.

The Issues of Workplace Safety and Public Policies in Hong Kong

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摘要

職業安全問題近年來成為香港公眾十分關注的一個問題。由政府公布的工傷死亡率數字可看出，香港的職業安全問題遠較一些發達的西方國家嚴重。本文從經濟學的角度簡述了職業安全與勞工市場及政府公共政策之間的關係，並總結了作者所作的一項公共政策對職業安全影響的仿真研究的結果，提出了可供政府參考的一些未來政策調整建議。

I. Introduction

Hong Kong has long been criticised for its poor workplace safety records. The work-related fatality rate for Hong Kong is several times those in the US and the UK (see Table 1). In the past 10 years, 2000 workers in total were killed and 100,000 were injured at work. The construction of the Chek Lap Kok airport alone cost 49 workers' lives.

Table 1. Comparison of Safety Systems in the US, UK and HK for 1995

	US	UK	HK
Fatality rate (1/100,000)	5.65	2.28	14.32
Inspections	94,539	88,571	89,138
Inspections resulting in citations	31,198	1,499	3,387
Average fine per inspection	US\$955	US\$4,597	US\$1,494
Number of firms	1,086,923	286,235	102,807
Production sector:			
Probability of Inspection	0.09	0.31	0.87
Expected Fine	US\$27	US\$24	US\$49
Experience-rated insurance system	yes	no	yes
Wage replacement ratio for a death under Workers' Comp.	0.5	0.24*	0.3**

* Paid under the State Incapacity Benefit (Long-term rate). However, this rate does not include other possible State benefits, such as child benefits, etc. The UK benefits are also not directly linked to employers' contribution.

** For HK, the 30% rate is estimated based on a person at age of 40 when injured.

Each year, several serious industrial accidents hit the headlines of local newspapers and prompt a renewed debate on whether Hong Kong needs more stringent government workplace safety regulation. A recent consultation paper prepared by the Education and Manpower Branch (1995) concluded that a better way to control workplace accidents would be to place more emphasis on self-regulation by employers and employees whose own workplace behaviour determines accident rates. However, many unionists and workers believe that more effective direct regulation is needed to control industrial accidents in Hong Kong.

Without knowing the efficiency of direct government regulation it is difficult to determine whether society would be better off with stricter regulations. A recent research project by this author together with Ho Lok Sang, Robert Sandy and Stan Siebert attempted to look at this issue with a simulation model. This short paper intends to discuss some of the theoretical issues behind this study and summarizes its main findings.

II. The Economics of Workplace Safety and Policies

According to standard economic theory, a worker is paid both in terms of wages and working conditions. We can think of the “full wage” of a job as being the money wage adjusted for the benefits and disamenities of the job. A worker’s skills determine his/her full wage, and his/her tastes then determine the mix between money wages and working conditions. Workers seek out jobs that have the mix of wages and working conditions that they prefer. Given competition, the job characteristics that workers generally dislike should then command high wages, other things equal. Such jobs will offer positive compensating wage differentials (CWDs). Jobs with enjoyable working conditions conversely will offer negative CWDs. This is a reflection of the “law of one price” operating in a competitive labour market.

One could argue that, provided that the market operates freely, the resulting equilibrium in wages and safety levels would allow people get what they want, and so no government intervention will be needed. However, workplace safety possesses the characteristics of a public good. Many safety measures affect the safety levels of all workers at the same workplace. In addition, there is also the problem of asymmetric information. It may be difficult for a new employee to know the true workplace safety level of a firm and may therefore not demand the fair CWDs. Both of these problems may be alleviated with the presence of trade unions which may monitor the performance of the firm/industry continuously. However, firm/industry based unions may or may not be present, while wider-based unions may act to represent the interest of “median voters” and therefore ignore those of the marginal workers who carry out the most dangerous jobs. Furthermore, workplace safety is something the entire

society can be proud of, while a poor safety record may be taken as shameful.

With these labour market imperfections in mind, government policies are often called for to regulate the workplace safety and/or to compensate injury workers. The typical policies conducted by many governments are: (1) to regulate workplace safety levels by setting up standards and codes of practice; (2) to run a no-fault compulsory insurance system to cover compensation for workers suffering from injuries. However, it is often found that the working of these policies is not all that satisfactory. Typically, accident rates dropped somewhat immediately after the implementation of these policies and then more or less stagnated. The problems associated with the policies are as follows. First, it is simply difficult to enforce safety standards. Second, the fines associated with the violation of standards are often too low due to the fear of driving firms out of their business. Third, workers’ compensation insurance serves the role of *ex-post* compensation for injury while CWDs serve the role of *ex-ante* compensation for injury. In general, compulsory insurance schemes cannot serve as an extra punishment for accident-prone firms, given the rather meagre compensation under insurance schemes. (My estimate for the value of a statistical life using CWDs in Hong Kong is about HK\$10.8, which is six times higher than the highest compensation for workers suffering from fatal or total disability accident). Fourth, higher benefit level tends to attract more reports of accidents and claims. Raising benefit levels may also make workers take less precaution. Finally, market adjustments can never take care of the external cost of accidents on society at large due to a record of high industrial fatalities and injuries.

III. The Policy Simulation and Its Main Results

The current setting of the working place health and safety policy in Hong Kong is mainly governed by three legislations, namely the Factories and Industrial Undertakings Ordinance, the Occupational Health and Safety Ordinance and the Employees’ Compensation Ordinance. The former two Ordinances empower the government to set up and enforce various safety regulations while the last Ordinance establishes a no-fault, non-contributory employees’ compensation system whereby all employers are required by law to buy insurance to cover compensation.

In Table 1, we compare Hong Kong’s workplace safety policies with those of the US and UK. It confirms that Hong Kong’s current policy settings combine some of the advantages of the policies in both the US and the UK. In particular, the employees’ compensation insurance system in Hong Kong possesses some features of an experience-rated insurance system, which can stimulate employers to improve safety. The regulatory framework in Hong Kong bears much resemblance to the UK system. Targeted safety inspection of highly risky workplace and relatively strict enforcement of safety standards proved to be important to reduce workplace accidents in Hong Kong. However, there are also a number of weaknesses in Hong

Kong's current system. *Compared with the US, the benefit levels of the employees' compensation insurance system may be too low to create enough incentive for employers to reduce accidents.* The persistent high accident rates in the construction sector indicates that the enforcement actions taken by the Labour Department may not be sufficient for some of the employers in HK. The average fine charged for violation of safety standards in the UK is several times higher than that in HK.

Since Hong Kong has relatively low benefits under its Workers' Compensation system and relatively low expected fines, it clearly has the ability to substantially raise either of these variables. We conduct policy simulation to gauge the effects of changes to each of these policies.

Our simulation results revealed that although a large increase in employees' compensation benefits created more incentive for employers to control accidents, it has very minor effects on the overall safety level. This is because it encourages employees to take more risky jobs. It casts doubt over the claim that the benefit levels are too low and an increase in benefits in Hong Kong may reduce accidents. However, we did find that a greater use of experience-rated insurance helps to reduce accidents. Next, we found that the increase of fines for violation of safety regulations may have more significant effects on reducing accidents. But, as the required increase is substantial for the policy to have a significant impact it is therefore envisaged that such a change would be difficult to implement. An alternative policy that can significantly reduce accidents but without significantly raising the average fine is a progressive injury tax policy that makes accident-prone firms pay more fines. Our simulation model should be useful for future policy studies in this area.

To conclude, we have the following recommendations for the government:

- Step up enforcement actions against accident-prone firms specially those in the construction sector, in part by increasing fines, in part by strengthening inspections;
- Devote more resources into accident data collection and analysis and publish more data to the public.
- Strengthen legislation to punish those firms who cheat on insurance premiums by understating their payrolls to insurance companies.
- The government should NOT increase employees' compensation benefit sharply as this will not help reduce accidents.
- In the long-run, we suggest that the government needs to review the current costs of the employees' compensation insurance, specially its associated tort costs, and seek to improve a more effective, less costly compensation mechanism.
- We strongly propose that the government consider introduce an injury tax mechanism with progressive tax rates. The injury tax is charged on a firm when it commits an industrial accident regardless of whether the firm has violated safety standards or not.

A steep tax will certainly make employers find more effective ways of reducing accidents.

- For firms that have violated safety standards, the government should be bold in laying charges and the courts should be more ready to impose further fines and/or other punishments. The levy and fine collected from accident will then be put into a fund to compensate injured workers. Such a system can reduce the huge administrative and tort costs of the insurance system and can also increase incentives for firms to reduce accidents.

Tax the Central Crossing, Subsidize the Western Crossing

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摘要

增加中區隧道收費，並以收益增加所得來補貼西隧，保持西隧收費廉宜，既可提高西隧使用率，也可減低中區隧道擠塞，是兩全其美的辦法。

Because the Western Harbour Crossing has accumulated huge losses, it decided to raise the toll, from \$30 to \$40 for private vehicles. However, for the time being a \$5 discount is given, leading to an effective \$35 charge. After the price increase, it was found that tunnel traffic fell by some 10 per cent. It is believed that most of this reduced traffic was diverted to the central crossing, rendering that crossing even more congested than before.

We know enough economics to be very positive in our assessment about this matter. The price increase for the Western Harbour Crossing reduces social welfare. Something can and should be done to improve welfare for everybody.

The Western Harbour Crossing is expensive to build. Yet it is now an important trunk road. The Government had made a deal with the company that it would not interfere with its pricing policy. That was the lure for the company to make the investment in the first place. However, even though the western crossing is losing money, it is an essential part of Hong Kong's internal transportation system. Most of the airport buses have to use the western crossing; many of the residents of the new town of Tung Chung as well as North West New Territories have to depend on it to get to work; and the western crossing certainly has helped relieve the very serious congestion in the central crossing.

Since it is expensive to build, we should use it as much as possible as long as the use generates net benefit. Given that the western crossing is already very much underutilized relative to the design capacity, we should reduce the toll, certainly not to increase it.

By reducing the toll, we can help relieve traffic congestion in the central crossing. The time savings for all of its users should be worth tens of million dollars a

month. A user of the central crossing would be quite willing to pay, say 5 dollars, to save 10 minutes. Of course some would be willing to pay more, others less. If we impose a five dollar surcharge on the central crossing, we would generate sufficient revenue to subsidize and thus lower the charges from the previous \$30 to \$25 and net a sizeable positive cash flow for the company. Western Harbour Crossing users will be happy. Central Crossing users, having to pay \$25 instead of \$20, will also be happy, because of significant time savings expected. The Western Harbour Crossing company will also be happy. We will have what economists call "Pareto improvement."

This is a clear case for government intervention to improve social welfare. It shows that government intervention is sometimes justified. This conclusion is very clear because we do not need to deploy extra resources to tax the central crossing and to subsidize the western crossing. But it requires enlightened thinking, a break from the dogmatic belief that government intervention is always bad. Does our government know enough economics to make the change?

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