

COMMENTHK

Financial secretary's trip sets scene for closer cooperation

Grenville Cross says Chan lays out a vision in Spain and UK that will attract investment and inspire confidence

On Sept 29, the financial secretary, Paul Chan Mopo, together with a team of technology industry leaders, returned from a seven-day visit to Spain (four days) and the United Kingdom (three days).

Both visits made good economic sense. Whereas Spain, in 2023, was Hong Kong's sixth-largest trading partner, the trade in goods and services between the UK and Hong Kong was 24.2 billion pounds (\$32.11 billion) in the four quarters to the end of the first quarter of 2024. Chan, therefore, was on strong ground when he made the case for closer cooperation between Hong Kong and the two countries.

On his blog, he wrote that he had "introduced Hong Kong's traditional and emerging financial services to the political and business sectors in Spain and the UK, and they showed great interest". He explained the opportunities available in the Guangdong-Hong Kong-Macao Greater Bay Area to his hosts, who hoped "to further explore and accelerate their expansion" there.

He sensed the business communities in both places were "very willing to establish deeper connections with Hong Kong, showing a strong willingness to cooperate", which dovetailed nicely with the city's objectives.

In particular, they wanted to know how best to use Hong Kong to expand their commercial presence throughout China and Asia, and Chan pointed to its role as a regional facilitator. Since national planners envisage an economic powerhouse in the GBA, Hong Kong is ideally placed to handle the incoming investment Chan was encouraging.

In Madrid, Chan focused on enhancing cooperation between Hong Kong and Spain. He met with the president of Spain Startup, Maria Benjumea, and representatives of its prestigious partner, the IE University. The possibility of Hong Kong hosting an innovation and entrepreneurship summit, along the lines of the South Summits that Spain Startup has been successfully organizing since 2012 (for startups, tech talent, investors and entrepreneurs), was mooted.

Chan indicated that Hong Kong was agreeable to hosting the summit to attract startups and investors from the Chinese mainland. He undertook to follow up upon his return home.

When Chan met the president of Madrid's city council, Francisco de Borja Panjul Fernandez-Pita, they discussed collaboration across various sectors. Chan reaffirmed Hong Kong's commitment to the "one country, two systems" policy, emphasizing that its open and welcoming business environment was governed by the common law. He encouraged Spanish enterprises to invest in Hong Kong and explore the extensive markets of the GBA, as well as those of the wider Chinese mainland.

Once Chan arrived in London, he met with government officials, business leaders and professionals. They included the Treasury's economic secretary, Tulip Siddiq; the Bank of England governor, Andrew Bailey; the Hong Kong-Europe Business Council; and Asia House, a think tank. He was well-received by his hosts, which was unsurprising as Hong Kong continues to be one of the largest sources of foreign investment for the UK.

As the prime minister, Sir Keir Starmer, plans to develop a more constructive relationship with China, Chan's visit may be considered an early step in that direction.

As in Madrid, Chan drove home the message that Hong Kong's adherence to the "one country, two systems" policy was unequivocal. He stressed that the common law was being faithfully implemented in the courts, and that the rule of law was being respected.

This must have been reassuring for his hosts, particularly for anybody exposed to the propaganda of the UK's strident anti-China voices (whether in the form of the foreign office's spurious six-monthly Hong Kong "reports", the rantings of Hong Kong Watch and its patron, Lord (Chris) Patten, or the paranoia of the Inter-Parliamentary Alliance on China and its co-chairman, Sir Iain Duncan Smith).

Chan also emphasized that Hong Kong would never "be just another Chinese city", and he was absolutely correct. As anybody who has studied the Basic Law can confirm, it enables Hong Kong to enjoy a financial, legal, political and social identity that is distinct from the rest of China, and to maintain its own way of



Grenville Cross

The author is a senior counsel and law professor, and was previously the director of public prosecutions of the Hong Kong SAR.

life. This is embodied in the "one country, two systems" policy, which has performed yeoman service since 1997. Although the policy was severely tested by the black violence in 2019-20, it has emerged stronger than ever, which must have been music to the ears of Chan's audiences.

Having declared that "our commitment to the rule of law is as firm as ever", Chan also explained that Hong Kong has an independent judiciary, which is always a "must" for business leaders and investors.

He said that seven nonpermanent judges on the Hong Kong Court of Final Appeal came from overseas, including three from the UK. He pointed out that Hong Kong was rated highly in the World Justice Project's Rule of Law Index 2023 (23rd out of the 142 places surveyed, ahead of the US at 26th). He also highlighted that in the "absence of corruption" category, its ranking was ninth, which must have been exactly what the investors wanted to hear.

Fate, moreover, smiled on Chan's visit. On Sept 24, just before he arrived in London, the Global Financial Centers Index, which provides periodic evaluations of future competitiveness and rankings for 121 financial centers worldwide, published its latest report. The index is highly regarded in business circles and has established itself as a valuable reference source for policy and investment decision-makers. Chan was able to announce that Hong Kong was ranked third in the latest index, hard on the heels of New York and London (first and second respectively), and ahead of Singapore (fourth), Shanghai (eighth), and Shenzhen (ninth).

As irresponsible voices in the UK have sought to demonize Hong Kong's national security laws, Chan went out of his way to explain the impact of the Safeguarding National Security Ordinance (which was enacted on March 23 and gave effect to the Basic Law's national security obligations (Art 23)). He stressed that the national security laws have ensured a stable and predictable environment for Hong Kong's economic development.

Chan said many foreign businesses in Hong Kong had recognized this. They had reported that their operations have remained normal since the national security laws were enacted. They also retained their confidence in the rule of law (an apparent reference to the recent survey by the US Chamber of Commerce in Hong Kong, which found that 79 percent of respondents had confidence in the city's rule of law).

Chan, moreover, was able to buttress his positive messaging with chapter and verse. For example, confidence in the local economy was evidenced by the 4 percent increase in bank deposits so far this year. Whereas Hong Kong's IPO market was rebounding, fundraising had exceeded HK\$50 billion (\$6.44 billion) to date. This made the city the fourth-largest IPO market globally this year, with over 100 companies in the pipeline awaiting listing.

There can be little doubt that Chan's reassuring words resonated with everybody he met, particularly with London's hard-nosed investors.

Throughout his travels, Chan laid out a vision that will attract foreign investment, inspire confidence and reassure doubters. People in both countries will now have a better understanding of how Hong Kong continues to be a significant player in its own right, and is more than capable of punching above its weight. However, Chan has little time to catch his breath.

Although his trip was undoubtedly a success, the city must now cement its role as a financial hub, a trading entrepot, and a global investment center, and the momentum Chan has generated must be maintained, if not accelerated.

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Mainland's stimulus policies can benefit Hong Kong in multiple ways

Last week the Chinese mainland's monetary and regulatory authorities announced a package of unprecedented policies to stimulate the economy and support the property market, which include measures to boost consumption and the stock market as well as support youth employment and private businesses.

The measures aimed at arresting the slump in the real estate sector focus on three aspects.

First, lower the threshold for home purchases. This will be achieved by reducing the down payment requirement to as low as 15 percent of the purchase price for both the first and second purchases of the same buyer.

Second, help homeowners to lower their housing expenses. This will be realized by reducing the mortgage rates by 0.5 percentage point across the board. The measure will benefit 50 million households, or 150 million individuals, nationwide, with a reduction of about 150 billion yuan (\$21.4 billion) in interest payments per year. This will help stimulate consumption and investment as well as disincentivize mortgagors from repaying their mortgage loans ahead of schedule.

Third, boost liquidity in the property sector. Funds will be provided to real estate developers through multiple channels to help them speed up the completion of ongoing projects and release flats onto the market, so that liquidity flows between developers, banks and homebuyers will resume as normal.

Previously, there were complaints about the ineffectiveness of stimulus measures because the authorities had held back the more forceful measures, and had only rolled out piecemeal measures. In fact, the authorities were not out of "ammunition", but were bidding their time.

On Sept 18, the US Federal Reserve cut the federal funds rate by 50 basis points, the first rate cut in four years, signaling the reversal of the Fed's rate hike cycle and heralding good timing for China's central bank to roll out strong stimulus and support measures, which have turned out to



Tu Haiming

The author is vice-chairman of the Committee on Liaison with Hong Kong, Macao, Taiwan and Overseas Chinese of the National Committee of the Chinese People's Political Consultative Conference and chairman of the Hong Kong New Era Development Thinktank.

be unprecedented.

The wide interest rate gaps between the US and other markets have triggered fund flows to the US market from global markets, including China. As a result, the yuan depreciated against the US dollar, which damped domestic consumption. The Chinese central bank had refrained from launching the necessary monetary easing measures, lest the yuan weaken further.

The Fed rate cut created the conditions for the People's Bank of China to lower the interest rates on existing mortgage loans, which will allow 50 million households to save some 150 billion yuan in interest payments.

Moreover, China updated its negative list on foreign investment access on Sept 8, lifting all restrictions on foreign investment in the manufacturing sector. This, together with the easing of restrictions on foreign investment access to the service industry, will attract more foreign investment.

While China's exports have been strong so far this year, the sluggish domestic consumption and investment have cast doubt on the possibility of achieving a 5 percent growth rate this year. The unprecedented support and stimulus policies and measures announced last week are a testimony to Beijing's resolve to achieve this year's economic growth target. The new support and stimulus measures, together with those aimed at attracting foreign investment, are expected to energize China's economic growth.

Buoyed by the new policies, both the mainland and Hong Kong stock

markets have kicked off a strong rebound and are on an upward trend, reflecting rapidly improving investor confidence.

Given the size of the Chinese economy and the close economic ties between Hong Kong and the mainland, policy changes on the mainland have far-reaching implications for Hong Kong. Therefore, following mainland policy changes closely will help Hong Kong spot growth opportunities. There are three questions to consider in relation to the new round of mainland policies.

First, what will be the impact on Hong Kong when liquidity is significantly augmented in the mainland market as indicated in the new policy package? The easing of monetary policy and the injection of liquidity into the mainland market will benefit Hong Kong's economy via channels such as the various Connect Schemes between the respective financial markets. The extent of this positive impact, especially on Hong Kong's real estate and stock markets, is worthy of analysis.

Second, how will stronger consumption on the mainland benefit Hong Kong? Lower mortgage payment burdens on mainland households will potentially stimulate consumer spending; it is worth studying where the increased consumption will occur, and how Hong Kong could seize this opportunity to attract more mainland visitors.

Third, how can Hong Kong benefit from the mainland's looser monetary policy and eased restrictions on foreign investments? Home prices on the mainland have declined as much as 30 percent after a three-year slump. While global capital is looking for new destinations in the wake of the US interest rate cut, the Chinese mainland is stepping up efforts to attract foreign funds and investments. As the gateway for foreign investment into the mainland, Hong Kong should explore better ways to facilitate the process and benefit from it.

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China's stocks roar back, wiping away pessimism

Stocks in the Hong Kong and Chinese mainland markets are surging — that might be an understatement. As reported by Reuters, "Chinese stocks swept to their biggest single-day gains in 16 years on Monday, with domestic A shares registering their highest ever turnover, as investors scrambled to join a searing rally sparked by Beijing's latest raft of stimulus measures." While the Hang Seng Index is now up 31.72 percent in the year to date, the media believe these markets are now in a "bull market", the term bull referring to "swiping upward" as opposed to a "bear", which swipes down.

The annual performance of Hong Kong's stock markets, and the resurgence of those on the mainland, come amid long-standing pessimism pushed by commentators and the Western mainstream media that seek to depict economic difficulties and "decline" in the special administrative region and China as a whole. While somewhat politically motivated, it is not least because such markets have also struggled amid the upheavals of the past few years. The Chinese government has been highly conservative in its monetary policy and sought to de-leverage the real estate sector as the source of its growth while placing emphasis on the development of high-end technology.

For Hong Kong, this boom indicates yet another milestone at the end of a "turbulent" period for the city's economy and a return to growth, which has been the story of 2024. First, context is important. The Hong Kong Special Administrative Region has suffered a number of internal and external shocks to its economic and investment climate, which made the situation challenging. These have included: the Hong Kong "black-clad riots" (2019-20), the COVID-19 pandemic (2020-23), and, as noted above, actions on the mainland including the real estate de-leveraging and regulatory actions against mainland firms. Finally, geo-



Tom Fowdy

The author is a British political and international-relations analyst.

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political challenges such as the Russia-Ukraine conflict have also dampened the global investment climate.

However, on a local and national level, these challenges have now passed, and for the first time since 2019, a climate of "normality" has returned to Hong Kong, providing stability that has allowed growth to return. As a result, the year of 2024 has been positive for the Hang Seng Index, while GDP has expanded 3.3 percent year-on-year in the second quarter. These developments also remind us that those who repeatedly proclaim "the death of Hong Kong" in the Western mainstream media are engaging in wishful thinking, and are often motivated by ideology and politics. They have not viewed the city's economic challenges in proper context and are eager to paint a narrative of the city "failing" simply in response to national-security-related legislation, but all data from this year contravene these conclusions.

Also of important consideration is the fact that the Chinese mainland's economy is undergoing "deleveraging" and "transition". The Western media at large have been extremely

negative concerning the prospects of the country as a whole, but fail to understand or elaborate that it has been deliberate policy of China's leadership to steer away from the real estate sector as the largest source of the country's growth. This has been a painful but necessary adjustment for the country to avoid being engulfed in debt, which is not sustainable as a source of growth, and will result in the ceiling of the "middle income trap". Instead, it has been the strategy of China for some time to place high-tech economic development and exports as the impetus for national growth, which is a necessary next step on the path to becoming a developed country.

In other words, China perceives its development as a marathon, not a sprint, and the Western mainstream media fail to understand that the end of 10-percent-a-year growth targets came not because the country is "slowing down" but because of a deliberate preference for sustainability. Hence, until now, China's economic policies have been fiscally conservative, which has lagged on markets. Western publications again championed this as an argument for China's "decline". However, the response of markets to the announcement of a long-awaited stimulus package shows that this pessimism, for both the mainland and Hong Kong, was significantly overblown, and the country's prospects have certainly not lost their shine.

In conclusion, things are finally looking up. For Hong Kong, 2024 has been a solid year in which the fundamentals have reestablished themselves, and now that is backed up by good news from the mainland. For the past few years, the city has had some rough-and-tumble moments and has been playing catch-up. Finally, it seems it has got fully back on track.

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