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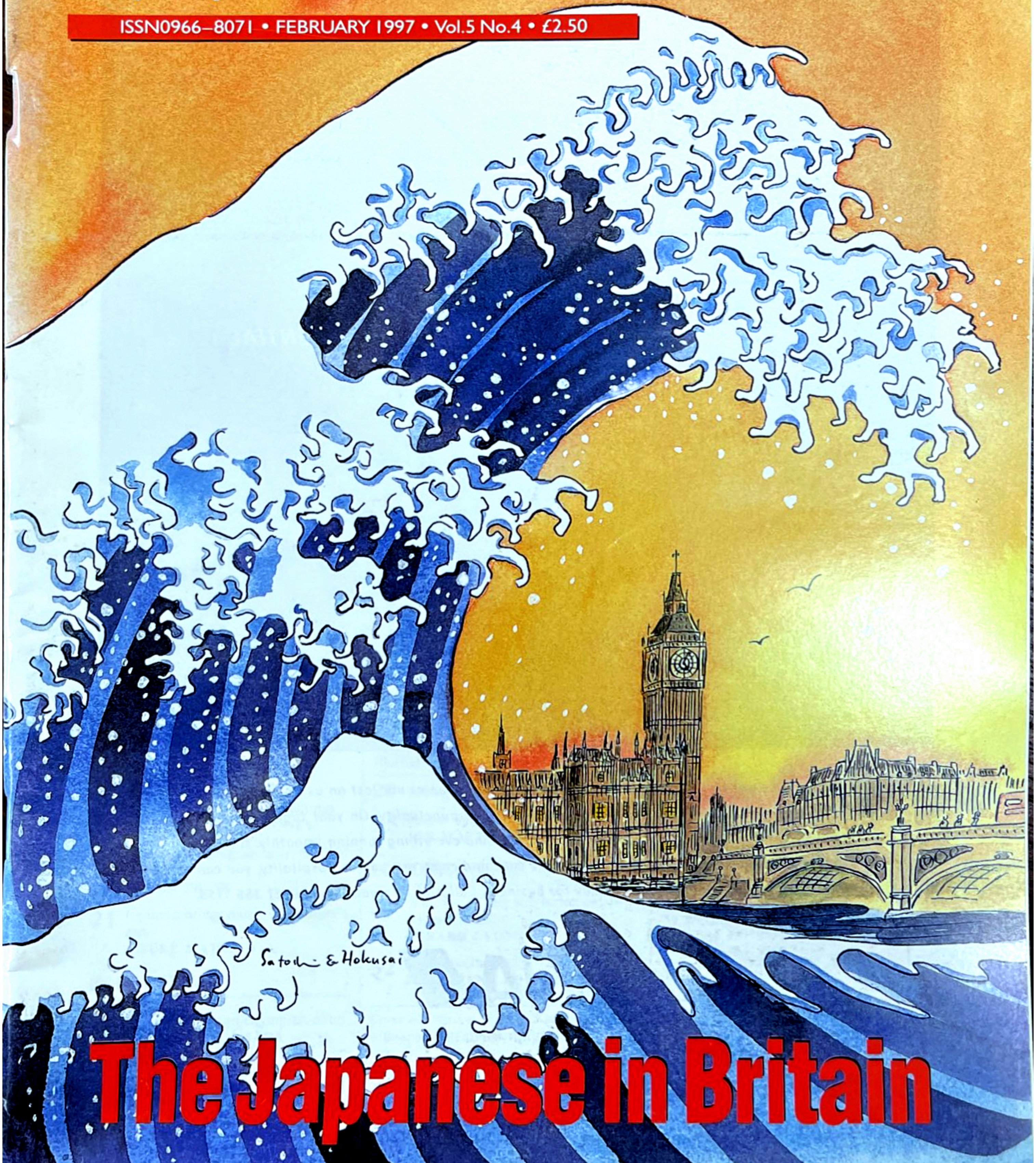


# The Japanese in Britain

# Will Hong Kong still be t

GERARD

What will be the economic and financial ramifications of Chinese control of Hong Kong? There seems little doubt that Hong Kong will benefit from China's continued economic expansion. While there are doubts about whether Asia can sustain its recent dramatic growth rates, such concerns do not apply to China, where rapid economic development seems inevitable. Although some economic regions of China have already expanded strongly, that has been from such a low level of development that their infrastructure and economy will grow further, and such expansion should transmit to those areas that are currently depressed. Trade between China and the rest of the world will rise. These developments will clearly help Hong Kong's economy, given its importance as a major trading centre for China.

But there are two key issues as to how Chinese control will affect Hong Kong's status as a major financial centre. First, will Hong Kong become the major financial centre of China, or will it lose out to competitors like Shanghai or even Beijing? Second, how will Hong Kong compete with other financial centres in Asia?

COMPARED WITH SHANGHAI AND BEIJING, Hong Kong has such a competitive advantage as a financial centre that it is difficult to see this being immediately challenged; having visited all these cities in the last couple of years, it is possible to see Shanghai becoming a main challenger, though not for some time. Currently Hong Kong's location, infrastructure, telecommunications, the amounts already sunk into the region by international firms and its skilled workforce give it a strong advantage.

Financial business in Hong Kong has boomed in recent years. Foreign firms have boosted their presence, contributing to the surge in land and office prices. Japanese banks, faced with a difficult domestic market, have been big investors in Hong Kong and would suffer from any setbacks there. It is easy to see why Hong Kong has been so attractive an area for financial firms to invest. Already, Hong Kong has benefited from the expansion of Asian economies, becoming the natural place for them to raise money, with 80 per cent of syndicated loans for those economies being structured there.

**"Financial business in Hong Kong has have boosted their presence, contri prices. Japanese banks, faced with a big investors in Hong Kong and wo**

Hong Kong's ties with China are an obvious attraction for international investors and financial firms. As Hong Kong's financial centre has already benefited from China's economic expansion, it can only gain from having greater ties after this summer, particularly as China has promised to allow Hong Kong to continue to operate as at present under a 'one country, two systems' approach.

CHINA NEEDS HONG KONG'S FINANCIAL MARKETS to help meet its capital needs. China's latest five year economic plan

# Stocks on the rocks

JONATHAN

Investors welcoming in the Year of the Bull could be forgiven for thinking that the calendar had played a cruel joke on them. The Tokyo Stock Market was anything but bullish, closing the first week of trading with the Nikkei Stock Average down 10.6 per cent from the previous year's close, dipping below the 18,000 mark for the first time since November 1995. The fact that the following Monday the Nikkei average rebounded to post the biggest percentage increase in a single day in 18 months was no cause for celebration. Uncertainty prevails, and it is too soon to say that the market won't sink lower.

Commenting on the course of the first week's trading, the *Asia Times* noted that "In only a few days, the financial press has offered almost as many explanations for the collapse of the Tokyo bourse as historians have for the fall of the Roman empire over the past thousand years... If the subject weren't so serious, this babble might be amusing." Amidst the babble, however, are several clearly audible refrains.

First, selling by foreign investors has increased due the yen's depreciation, lessening the dollar value of yen stock holdings and making them less attractive.

Second, there is an imbalance in the market between issues

# ›p dog in Asian finance?

LYONS

aims to boost infrastructure spending with Hong Kong being the source of funds. This should help the vast number of Japanese banks who are based there and who are involved in project finance.

FOR HONG KONG TO LOSE OUT as China's financial centre requires a dramatic change of heart by the Chinese that would affect its ability to compete. This seems unlikely. Within China, Shanghai is the natural competitor, given its history as a trading centre. China's financial institutions are all

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represented there. But Shanghai's financial and economic infrastructure needs to develop to be on a par with Hong Kong. That will take time, but it will happen, even in the area of telecommunications and information flow. Moreover, China's currency needs to become convertible for Shanghai to blossom. This is likely to occur alongside the development of China's savings market. China's bond market is also likely to boom and could, over the next decade, become the second most important global market, after that for US Treasuries. All these developments could help Hong Kong, but they could also favour Shanghai. And as the renminbi becomes convertible – and assuming no political shocks within China – foreign capital may be directed into building up the presence of foreign financial firms in Shanghai; such is the change of pace in China that anything is possible.

These are issues for the future. The initial worry after the changeover will be whether Hong Kong can maintain its competitive position within Asia. Whereas London is clearly the financial centre of Europe, no one city can fully claim the title in Asia. There are three key contenders: Tokyo, Singapore and Hong Kong.

Hong Kong has the competitive edge, despite the fact that the costs of being based there have soared recently as land prices, rents and wages have risen sharply. This has not been a deterrent to international firms, even though some have located operations in Singapore. Rather it is a consequence of the rapid pace of change. Although costs are higher than in Singapore, Hong Kong's position next to China gives it a big advantage. Furthermore Hong Kong is free from the regulations that continue to constrain Tokyo, and even though the Japanese market is deregulating, this may not undo the damage. All three are likely to remain major financial centres. Tokyo should benefit from the Big Bang that is under way there. Singapore should benefit from its economic and political stability and remain a major financial centre, ready to benefit from any shocks in Hong Kong. The international financial community, including Japanese banks, are hoping that Hong Kong can avoid any major shocks. Time will tell. □

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# bring market gloom

-OYD-OWEN

that are globally competitive, such as Toyota or Honda, and those affected by domestic conditions, with not enough companies performing well internationally to buoy up the market.

Third, and more pervasive, is a reluctance to invest because of concerns about economic recovery – in the succinct words of a Salomon Brothers weekly report, "The market thinks the economy stinks." Recently, the government issued its lowest projection for economic growth since the end of the war — 1.9 per cent in 1997 – and hopes that consumer spending will gee things along are muted because of the coming hike in consumption tax from 3 per cent to 5 per cent and the discontinuation of income and residence tax rebates, all effective from April, which are predicted to keep wallets in pockets.

These measures, which effectively amount to an additional tax levy of ¥7bn are gloomily interpreted by some as a way for LDP politicians and bureaucrats to raise funds for pet projects as a means to keep their hold on power. In particular the government's fiscal '96 supplementary budget and fiscal '97 budget plans, which retain costly farming subsidies and include proposals to fund hugely expensive new bullet train