



Hong – Kong: Introduction > Challenges > Future > Conclusion

The contemporary Hong Kong:

A never ending story of economic success?

by Stefan Gassner

Is this city part of a never ending story of economic success?

That is what we'll draw **our attention to** within the next fifteen minutes.



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The contemporary Hong Kong:
A never ending story of economic success?!

- I. Challenges after 1997
 - 1. Asian financial crisis
 - 2. SARS
 - 3. Political frictions
- II. Hong Kong's future
 - 1. Competitive disadvantages
 - 2. Sources for possible success



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First we'll take a look at the **challenges Hong Kong have been faced with** and then turn to an **outlook to its future** of Hong Kong in the **regional competition**.

Especially to **business students** as you are, this might be an very very **interesting approach**, because the Asian economy, as you've seen it in all **other presentations** today, *will* be the most growing region **during your time of working**. Currently Asia's GDP is growing approx. 8% per year.



As you might know, **modern economic developments** can be most likely traced back to **psychological circumstances**. And those are the **main issues of the contemporary Hong Kong**.



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1997: Asian financial crisis

Situation

- Hong Kong Dollar was pegged to the US Dollar
- Hong Kong was highly dependent on exports
- Other countries in the region had large deficits
 - ▶ high inflation rates
 - ▶ crowding out of investments
 - ▶ stock markets drops
 - ▶ weak currencies

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The **first challenge** was the **1997** Asian financial crisis. On the slide above are the main characteristics of the situation listed.



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1997: Asian financial crisis

Consequences

- More than \$1 billion US-Dollar were spent to defend the local currency
- Hang Seng dipped by a quarter
- Interest rates tripled to 23 %
- Unemployment up to 6.3 % in 1999



► **Uncertainty spread and confidence was shocked**

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Moreover, it caused a loss of confidence (**psychological affects**) to the Hong Kong economy. Loss of **exports, Tourism** slowdown, inclining of **property** and real estate **prices** were the **consequences**.

But only **short term consequences**, by 2000 HK was **back to old strength**. That might be because confidence in **other financial places** inclined, some others say **due to strong banking sector** or because the **service sector** was well developed



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2003: S A R S

Situation and consequences

- World wide attention leading to uncertainty
- Just after the recovery of the financial crisis
- Short-term impact on the economy due to
 - ▶ a lack of consumer and
 - ▶ investor confidence and
 - ▶ lower exports and tourism



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Just **after having recovered** from the impact of the financial crisis in 1997 and the **world wide problems of 9/11/01** Hong Kong faced another challenge: **SARS**. SARS is a respiratory illness. It killed up to 1000 people in 28 countries so far. When it first broke out in Hong Kong **little was known about SARS**. The news spread around the earth in days, leading to a **world wide uncertainty**. It **dimmed the short-term growth**, like the financial crises did, mostly due to **psychological reasons**, which **negatively affected both, consumer and investors confidence**. It lead to an **out flux of foreign capital, unemployment and a growth rate “down” to 3 percent**

Most important and severe was the impact on the **more and more growing tourism**.



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2003 - 2005 : Political frictions

- Confidence in Hong Kong will only persist if China doesn't interrupt too much
- Half a million people demonstrated against their government on July 1st 2003

Reasons:

- ▶ Dissatisfaction with its SARS handling
- ▶ No concrete solutions, only public appeasement

Finally lead to the step back of Tung in March 2005



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“**One country two systems**”, that was the **parole in 1984** when the handover was discussed.

China now **seems to be tempted to restrict Hong Kong's freedom**, for example by forcing them to adopt **Chinese security legislation**.

But it seems that the **local government is causing more problems** as Beijing is.

People in Hong Kong were **dissatisfied with the solutions** given to the recent financial and SARS crisis.

The believe that those are **just public relation solutions** in order to appease the people. This lead to many **demonstrations**, especially on every July 1st. And finally to the **step back of Tung Chee-hwa last week**.



As it seems right now, it has **almost completely recovered from the setbacks** in the last eight years.

The **growth rate is back to 8 %**, the **currency is stable** and the **unemployment rate is as low as 4 percent**.

In **the next chapter** I will outline the prospects of Hong Kong by **taking a look on its advantages and disadvantages** in the **competition with other cities** in the region.



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Competitive disadvantages

- Economy highly dependent on exports and imports
- China’s political influence and restriction of the autonomy
 - ▶ How long will the “one country, two systems” work?
- No democratic elections

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Natural resources are limited, food and raw materials must be imported. That makes HK very dependent to the world’s economic climate.

China is trying to have more impact on the decisions made in Hong Kong by restricting its autonomy.

Furthermore, there is not yet a democratically elected government



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Sources for possible success




- Infrastructure, excellent education system
- highly developed service sector
- excellent entrepreneurial climate
- proximity to Mainland China
- melting-pot for European and Asian culture
- Tourism
 - Easing of travel restrictions from mainland China
 - Investments like SkyCity

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More than 10 universities and five airports are situated around the Hong Kong island. The proximity to Mainland China is an important advantage in competition with other cities like Singapur.

SkyCity will be a vibrant hub of energy next to the main airport. Phase 1 development includes AsiaWorld-Expo (an international exhibition centre), SkyPlaza (an office and retail complex), SkyPier (a cross-boundary ferry terminal) and a 9-hole golf course. Future phases will consist of a business park, hotels, and leisure and entertainment facilities.



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Is Hong Kong a never ending success story?



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Although having to deal with several threats to the economic development. Hong Kong was capable not only in **managing them**, but also in **using its positive affects as their advantage**.

This will give Hong Kong the power for a long lasting growth, if it is **capable to deal** with the

political frictions caused by both, their own and the Chinese government.



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Introduction



Challenges



Future



Conclusion

Further information:

<http://www.cia.gov/cia/publications/factbook/geos/hk.html>

<http://www.cnn.com/WORLD/9706/hk97/>

<http://www.hongkong-gesellschaft.de/info/geschichte.html>

<http://www.answers.com/topic/economy-of-hong-kong>

http://www.marimari.com/content/hong_kong/general_info/economy/main.html

<http://www.info.gov.hk/hkecon/release/index.htm>

http://www.chinadaily.com.cn/english/doc/2004-07/02/content_344768.htm

http://de.wikipedia.org/wiki/Hong_Kong

MS Encarta Encyclopedia 2004

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