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More budget giveaways and freebies – Hong Kong’s financial secretary ready to splash the cash to spur domestic spending

John Tsang’s solution in the face of a worsening economic outlook puts him at odds with his two superiors in the government, who are understood to be less keen on dishing out sweeteners

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Hong Kong Financial Secretary John Tsang Chun-wah meet the press at the Central Government Office in Tamar.

A string of relief measures are expected as the core part of Financial Secretary John Tsang Chun-wah’s budget next week to spur domestic spending amid a deteriorating economic outlook – but it will only be possible after a drawn-out debate with the government’s top two officials.

In his last full-year spending blueprint, Tsang is understood to have earmarked attractive tax rebates and concessions on rates, public housing rents and licence fees at a time when the city is suffering a high degree of economic pessimism as a result of rising interest rates, a roller-coaster stock market, sinking property values, a retail and tourism downturn, and the mainland’s economic slowdown.

The relief measures, albeit one-off, will come after robust discussion due to the diverse views of Tsang, Chief Executive Leung Chun-ying and Chief Secretary Carrie Lam Cheng Yuet-ngor, according to sources familiar with the situation. Tsang advocated in favour of a strategy that would raise consumer power.

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“There were different views on whether to distribute sweeteners or not,” said a source anonymously. “Tsang is a keen advocate, but CY and Carrie were not.”

In last year’s budget, the government forked out HK\$34 billion – roughly half of its surplus – on one-off measures but mostly on industries affected by the pro-democracy Occupy movement as the economy grew at 2.3 per cent in 2014.

Based on the government’s forecast of flat growth, at 2.4 per cent, in last year’s economy and the pessimistic outlook for this year, a more generous

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relief package is expected. The focus is expected to be on the tourism, hospitality and retail industries as the flow of mainland visitors to Hong Kong, who account for about 70 per cent of the city’s total, slows to a trickle.

A source with the government said Tsang would also offer “a heart-warming initiative” in the wake of the tourism doldrums after surprising the public with his pet project in the last budget – rolling out food trucks in Hong Kong.

Tourism legislator Yiu Si-wing has high hopes for the budget, expecting the government to pump HK\$100 million in funding to the Hong Kong Tourism Board after giving it an extra HK\$80 million last year to promote the city.

That HK\$80 million, on top of the board’s HK\$300 million annual funding, was used for lucky draws, discounts and freebies.

Yiu also said the solo mainland traveller scheme should be broadened beyond the existing 42 cities from which the central government allows residents to travel to Hong Kong on an individual basis to include solo travellers from northern mainland cities such as Qingdao, Shenyang and Harbin.

Stephen Wong Yuen-shan, an adjunct lecturer in economics at Chinese University of Hong Kong, said it was important to shore up industries like tourism and retail, but the city needed to leave behind the political bickering and move on to longer-term investments.

“The one-off measures will undoubtedly help in the short run,” he said. “We need greater investments into the future despite rising political uncertainty.”

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The political landscape is heating up ahead of the Legislative Council elections in September and the chief executive election next year.

Widely seen as cementing his political clout in the next election by tying Hong Kong’s future growth with the brainchild of President Xi Jinping’s “One Belt, One Road” trade strategy, Leung mapped out ambitious plans and spending to facilitate the development in his last full-year policy address in January.

Tsang’s budget is expected to reveal more initiatives to facilitate the strategy Xi designed to encourage Chinese enterprises to go global.

It is understood that the Hong Kong Monetary Authority will set up an office to facilitate the financing of infrastructure projects along “One Belt, One Road” countries by bringing together investors, banks and financial institutions.

Tsang will also lead a business delegation to visit Middle Asia later this year.

Joseph Chan Nap-kee, chairman and chief executive of Kaisun Energy, which invests in Tajikistan, said the government, as an initial step, should bridge the diplomacy gap by connecting Hong Kong trade bodies with authorities connected to governments of “One Belt, One Road” countries.

Counting the coffers

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|--|---------------|-------|----------|------|---------------|
| 2015/2016 surplus | 72.7 | 95.5 | 80 | 80.7 | 36.8 |
| Estimated fiscal reserves for 2015/2016 (HK\$829 billion as of March 31, 2015) | 856.5 | 850.7 | 863.5 | 864 | - |
| GDP growth in 2015 (2.3% growth in 2014) | - | 2.4% | - | - | 2.4% |

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“Initially, Hong Kong could export management experience on existing airports and hotels,” he said. “Very often, it takes at least 10 hours to wait for a transit flight because of the poor management of airports.”

While the financial market and services sector will remain the mainstay of Hong Kong in the near future, the government hopes to return to the heyday of the city’s manufacturing through re-industrialisation and supporting creative industries.

It is understood that the budget will launch a project in which the Science and Technology Park in Sha Tin will develop automation for high-value-added manufacturing.

Pauline Ngan Po-ling, deputy chairwoman and managing director of one of the world’s largest hat makers, Mainland Headwear Holdings, said government help for industries was long overdue.

“Hong Kong still needs some manufacturing activities, those high-value added and hi-tech,” she said “The help should have been given to Hong Kong manufacturers across the border three or four years ago. Now most of them have moved to other countries.”

Ngan, a Hong Kong delegate to the National People’s Congress, said the mainland’s industrial upgrade in the late 2000s had left many Hong Kong

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factory owners no choice but to quit the Pearl River Delta, the factory of the world.

Ngan, who relocated most of the group’s production from Shenzhen to Bangladesh almost three years ago, said the government should offer tax incentives, land, subsidies and policies if it wanted to re-industrialise the city.

She added that Hong Kong should beef up investments on IT as it had started to lag Shenzhen in the past three to four years after the special economic zone lent greater support to technology development. Hong Kong lost its top position as the most competitive mainland city to Shenzhen last year, according to a report by the Chinese Academy of Social Sciences, a think tank of Beijing’s State Council.

A *South China Morning Post* poll of the big four accounting firms – Deloitte Touche Tohmatsu, Ernst & Young, KPMG and PricewaterhouseCoopers – shows the government is likely to record a surplus of anywhere between HK\$80 billion and HK\$95.5 billion in the 2015/2016 fiscal year on the back of land sales and stamp duty income.

This is way above the government’s forecast of HK\$36.8 billion, which means it is likely to miss its forecast for the 11th year in a row.

The big four forecast fiscal reserves of anywhere between HK\$850.7 billion and HK\$864 billion as of the end of March, or about 24 months of government expenditure.

Elliot Leung, the 28-year-old founder of a smartphone app venture Gaifong, said the government should invest in Hong Kong start-ups. He said Hong Kong invested less than 1 per cent of its GDP into start-ups, but an average ratio overseas was two to three times higher.

“There is no lack of funding or subsidies for start-ups in Hong Kong,” he said. “Investments, particularly by the Hong Kong government, are what it needs.”

No matter what short-term relief measures the budget will bring about, Hong Kong undeniably needs greater investment into future growth on the back of the ageing population.

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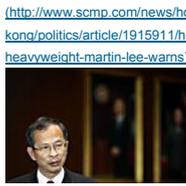


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