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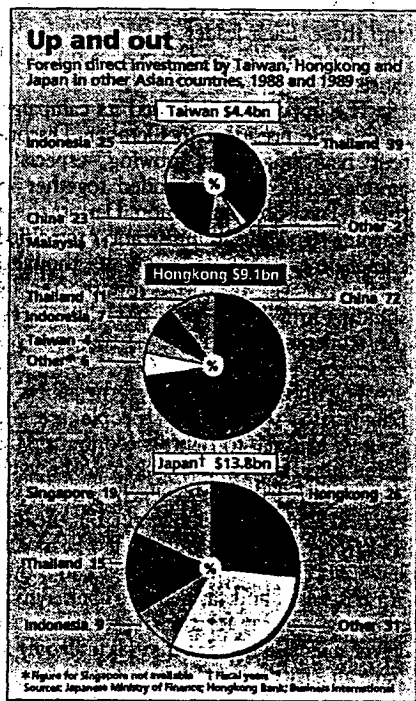
Hongkong Asia its oyster

FROM OUR HONGKONG CORRESPONDENT

CHEQUE books ready and calculators primed, Hongkong's businessmen are going abroad to invest. Are they already scared of 1997, when the British colony reverts unwillingly to Chinese sovereignty? Perhaps a little. But the main reasons are more mundane: wage rates at home are rising, property prices are almost as high as Tokyo's, and inflation is nudging into double figures. No longer can Hongkong's entrepreneurs make their millions from sweatshops in Kowloon; instead, they must look to poorer parts of Asia.

The result is that Hongkong money is now financing everything from buildings in Manila to electro-plating factories in Indonesia. In China's Guangdong province, just across the border, Hongkong capitalists employ, directly or indirectly, more than 2m workers; they are paid a fifth of what comparable workers in Hongkong get. In Vietnam Hongkong businessmen jostle with Taiwanese and Singaporeans, waiting for the day when America at last lifts its trade and investment embargo on Vietnam. Just how much Hongkong is investing abroad remains a matter of conjecture—a laissez-faire government does not keep tabs on capital flows. But according to the Hongkong Bank, which collected the figures from recipient countries, the colony now accounts for roughly a quarter of the direct foreign investment made in countries along the arc that reaches from Thailand to Japan. True, more than \$20 billion of the \$26 billion committed by Hongkong in the 1980s has gone to China; but that still leaves Hongkong as the source of 10% of all direct foreign investment elsewhere in East Asia. Last year Hongkong committed \$4.6 billion for direct investment in Asia; even Japan committed only \$8.2 billion, and \$1.9 billion of that was earmarked for Hongkong. Part of the reason for Hongkong's spurt is that, like Taiwan (the only country besides Japan to have outspent Hongkong in South-East Asia during 1988-89), it started late.

Fully half of the colony's direct foreign investment has been made since 1986. Ever since the recession of 1985, high rates of GDP growth in Hongkong have led to inflation and an increasingly tight labour market. Annual consumer price increases rose from 2.8% a year in 1986 to almost 10% now; unemployment is around 1.7% of the workforce—which, in practice, means there are thousands of vacancies that cannot be filled (unless foreigners were to be admitted). More to the point, no relief is in sight. Even though the growth rate of Hongkong's economy has slowed in step with China's, to perhaps 1.7% this year and 2% next, the inflationary labour shortage is going to continue—not least because the government is launching an enormous airport construction scheme that will cost far more than the original estimate of HK\$127 billion (\$16.3 billion). Meanwhile Hongkong's best and brightest, fearful of 1997, are emigrating at the rate of 62,000 a year, 1% of the whole population, and more than 10% of the middle class. Businessmen simply have to look abroad more than they used to both for



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brawn and for brain.

Might they leave Hongkong starved of the money it needs to upgrade the skills of an ever more expensive workforce? In practice, the risk seems remote. The Hongkong Bank reckons that Hongkong's outward investment—at least the amount actually spent, as opposed to the sums approved—has been more or less matched by inward investment from Japan and America. Moreover, domestic private investment has been running at a real rate of 10.7% a year since the mid-1980s. Unlike the investments

Hongkong's businessmen are making abroad (mostly in manufacturing, a bit in services), the ones at home tend to be in property—which is why Hongkong remains a perpetual cacophony of pile-drivers.

The political advantage to Hongkong's reaching out is that, the more it invests abroad, the safer it may be from Chinese interference after 1997. Why should China, two-thirds of whose inward foreign investment during the 1980s came from Hongkong, disturb a goose that can lay golden eggs not just at home but throughout Asia?