Copycat capitalists

by The journal of The Hong Kong Institute of Chartered Secretaries
August, 2013

It is all too easy to envy China. At current growth rates, the Chinese economy will double in size in only nine years, raising an estimated 100 million people above the poverty line in the process.

Compare this to the major economies of the Western world. The eurozone's GDP remains mired below 2008 levels, and the US last enjoyed Chinese-style growth back in 1984, when gasoline was US$1.10 a gallon and the first Apple Macintosh was rolling off the production line in California.

Given the West's anemic performance in recent years, it is hardly surprising that envy of China's economic dynamism has manifested itself in official policy. Recent examples range from direct market interventions (such as America's effort to boost its automotive industry via the 'cash for clunkers' programme), to the British government's attempt to reflate the UK's housing market by guaranteeing mortgages under its 'help to buy' scheme.

Even hitherto independent central banks have not escaped the creep toward state-sponsored capitalism. The US Federal Reserve has been gently encouraged to buy 90% of annual net issuance of US Treasury bills, effectively funding the US fiscal deficit and ensuring, via the resulting negative real interest rates, that businesses and individuals wishing to save, rather than spend, will lose purchasing power by doing so.

Ironically, Western countries are shifting to statism at the very moment that China appears to be heading in the opposite direction – witness its recent moves to liberalise its financial system. In just 10 years, the share of state-directed bank lending in China has fallen from 92% of new credit creation to less than half.

But copycat capitalism is not without risk; indeed, it is unlikely to end without someone getting scratched. The West's efforts to emulate China are hindered by its inability to replicate the conditions of Chinese growth, such as labour mobilisation, and its unwillingness to pursue practices such as the one-child policy. Thus, the West's forays into state capitalism are more likely to result in the misallocation of capital, more in the vein of China's vastly oversupplied steel industry but without the stellar headline economic performance of the national economy.

Coming from the other direction, China's crawl toward a more market-oriented brand of capitalism also has potential pitfalls.

Highlights

- the lack of growth in the West is creating interest in China's model of state-directed capitalism
- the West cannot replicate the conditions of Chinese growth and direct state interventions in the market are likely to result in the misallocation of capital
- similarly, in the absence of the West's market infrastructure, China's market reforms can sometimes backfire

Hong Kong’s corporate rescue marathon

by The journal of The Hong Kong Institute of Chartered Secretaries
August, 2013

Credit crunches and sudden economic downturns can quickly undermine businesses in difficult times, but some businesses may be ale to survive short-term financial difficulties if an effective corporate rescue process is available. This article will take you through the corporate rescue practices established over the years in Hong Kong and explains why the marathon to establish a statutory corporate rescue procedure has yet to cross the finishing line.

Before the onset of the Asian Financial Crisis in 1998, the average number of winding-up orders made by the High Court in Hong Kong for the decade before 1998 was about 400. In 2003 / 2004, company collapses stood at the peak of over 1,200 after the outbreak of the SARs epidemic. In 2008 / 2009, company failures fell to about 550 cases after the collapse of Lehman Brothers. Winding-up orders made in 2012 dropped to around 300 cases.

One key factor which contributed to the rising number of corporate collapses after the financial crisis was the lack of a corporate rescue regime in Hong Kong. The Companies Ordinance (Cap 32) and its subsidiary legislation provides comprehensive rules to deal with solvent and insolvent liquidations for both registered and unregistered companies. However, there is a lack of a modern legal framework designed to save troubled companies from the fate of liquidation and, at the same time, balance the interests of creditors.

Corporate rescue – the Hong Kong approach
Traditionally, any default of payments on loans or failure to serve interest on debts by companies has triggered lenders, in particular bank creditors, to protect their interests by imposing an immediate suspension or termination of all financial support. Since the debtor companies are already struggling on extremely tight cash flow positions, few businesses survive this termination of credit.

The high number of company failures resulting from these arrangements triggered concern among major bank creditors to find alternative solutions to prevent debt-ridden companies from sinking in this way – thereby preserving business value for a better return to creditors. Quite often, informal meetings among key creditors were called at short notice aiming to highlight key problems and bring in experienced restructuring and insolvency specialists for an urgent corporate health check and to recommend viable solutions to the debtor company.

The marathon to establish a statutory corporate rescue procedure in Hong Kong has already taken over 16 years.

We need to strike a balance between the interests of all creditors and stakeholders involved, but we also need to consider the reputation of our well-regarded market infrastructure in Hong Kong.

Highlights

- the current corporate rescue arrangements used in Hong Kong are voluntary and non-binding
- restructuring through a scheme of arrangement has become a practical tool for the corporate rescue of large-scale or listed companies but it is rarely used for an SME as it can be complex and costly
- the prolonged delay in establishing a statutory corporate rescue procedure in Hong Kong threatens to tarnish Hong Kong's reputation as an international financial centre

Gregory So promotes HK in NZ

by news.gov.hk, Hong Kong
Monday, August 5, 2013

Secretary for Commerce & Economic Development Gregory So expounded on Hong Kong's advantages in an address to a New Zealand business seminar and the opening reception of the Hong Kong Festival in Auckland today.

The Hong Kong New Zealand Business Association organised the Connect Hong Kong seminar, in which Hong Kong Trade Development Council and Invest Hong Kong representatives outlined the city's strengths in attracting investment and developing businesses.

"Hong Kong provides the shortest and most reliable route for New Zealand companies to do business in the Mainland of China. We are also an effective connector to markets across our region," Mr So told seminar attendees.

He noted that Hong Kong was the seventh largest market for New Zealand goods exports, and in the past decade the value of New Zealand goods exported to Hong Kong had increased 40%, to about HK$5.25 billion last year.

Hong Kong's unique advantages - a comprehensive network of professional services, unparalleled access to the Mainland market, bilateral trade agreements with trading partners as an individual member of the World Trade Organisation, and the position as the world's freest economy - made Hong Kong a showcase for New Zealand brands of goods and services, he said.

At the opening reception of the Hong Kong Festival, being held in both Auckland and Wellington, Mr So invited New Zealanders to visit Hong Kong to experience the unique East-meets-West culture and the new Kai Tak Cruise Terminal.

He also met with Hong Kong people working, studying and living in Auckland, and with local business leaders.

Mr So will visit Wellington tomorrow, to meet the Minister for Commerce, Minister for Broadcasting and Minister for Consumer Affairs Craig Foss, Deputy Prime Minister and Minister of Finance Bill English, Wellington Mayor Celia Wade-Brown, House of Representatives Speaker David Carter, and Minister for Economic Development Steven Joyce.

He will also speak at the opening reception of the Hong Kong Festival in Wellington.

Mr So will be back in Hong Kong on August 7.

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HK-GD copyright meeting held

by news.gov.hk, Hong Kong
Tuesday, August 6, 2013

The 12th Meeting of the Guangdong-Hong Kong Expert Group on Protection of Intellectual Property Rights was held in Guangzhou today, and participants agreed to continue deepening and promoting mutual co-operation on intellectual property.

The group's co-operation projects for 2013-14 include promoting and developing intellectual property trading in Guangdong and Hong Kong and organising intellectual property seminars and exchange programmes for enterprises in both places. They will also hold intellectual property seminars applicable at exhibitions and conventions, and hold intellectual property activities for enforcement officials.

The two sides shared their latest developments in intellectual property co-operation and reviewed the projects completed in the past year, such as the Guangdong-Hong Kong Seminars on Intellectual Property & Development of Small & Medium Enterprises.

Law enforcement authorities in both places continued to work closely during the past year to further improve the co-ordination mechanism for handling intellectual property-related cases, and focused on co-operating to combat cross-boundary intellectual property rights infringements on the Internet.

During the press conference, Director of Intellectual Property Peter Cheung said the close relationship between Hong Kong and Guangdong allows ample co-operation opportunities between intellectual property-related parties in the two sides under the framework of the expert group.

"By synergising the strengths of the two sides, Hong Kong and Guangdong Province have great potential in jointly developing into an intellectual property trading hub in the region," he said.

The expert group was formed after the 6th Plenary of the Guangdong-Hong Kong Co-operation Joint Conference in August 2003. It works to enhance exchange and co-operation on various aspects of intellectual property protection, including promotion and education, training and enforcement.

Hang Seng breaches 21,800, bounces 2pc

by thestandard.com.hk, Hong Kong
Monday, August 12, 2013

Stocks in Hong Kong closed 2.13 percent higher, buoyed by better-than-expected industrial data out of China late last week which raised hopes the world's second largest economy was stabilizing. The benchmark Hang Seng Index gained 463.72 points to 22,271,28 on turnover of HK$64.74 billion.

Shares in Shanghai jumped 2.39 percent, or 49.04 points, to 2,101.28 on turnover of 116.5 billion yuan.—AFP.

Re-exports up 0.5%

by news.gov.hk, Hong Kong
Thursday, August 15, 2013

Hong Kong's goods re-exports increased 0.5% in volume in June year on year, while that of domestic exports dropped 11.5%, the Census & Statistics Department said today.

Taken together, total exports' volume increased 0.3%. Imports' volume rose 2.3%.

Comparing the first half of 2013 with the same period in 2012, the re-exports' volume increased 3.4%, whereas that of domestic exports fell 7.5%. Taken together, total exports' volume increased 3.2%. Imports' volume rose 4.5%.

Comparing June 2013 with June 2012, goods re-exports' prices decreased 0.2%, while that of domestic exports increased 2.6%. Taken together, the prices of total goods exports decreased 0.2%. Imports' prices decreased 0.1%.

For the first half of 2013 over the same period in 2012, goods re-exports' prices increased 0.4%, while those of domestic exports increased 3.2%. Taken together, total goods exports' prices increased 0.5%. Goods imports' prices rose 0.6%.

China's economy stabilising

by rthk.hk, Hong Kong
Monday, August 26, 2013

China's Statistics Bureau says the country's economy is showing increasing signs of stability and growth. Its spokesman Sheng Laiyun said positive economic data in July -- coupled with improving external conditions -- meant the economy is on track to meet the government's growth target of 7.5 percent for 2013. Growth slowed to 7.5 percent in the second quarter of this year - down from 7.7 percent in the three months ending March 31st.

China's manufacturing activity at 16-month high

by bbc.co.uk, Hong Kong
Monday, September 2, 2013

China's manufacturing activity picked up speed in August, hitting a 16-month high, allaying some fears of a sharp slowdown in its economy.

The official Purchasing Managers' Index (PMI) rose to 51 from 50.3 in July.

The PMI is a key gauge of the sector's health and a reading above 50 indicates an expansion.

China, the world's second-largest economy, has taken various steps to boost its economy after its growth rate slowed for two quarters in a row.

"We are seeing clearer signs of economic conditions improving," said Haibin Zhu, chief China economist at JP Morgan in Hong Kong.

'Concrete policy announcement'

China's economy expanded by 7.5% in the April to June quarter from a year earlier - down from a growth rate of 7.7% in the previous three months.

There have been concerns that its growth rate may slow further in the coming months, not least because of a slowdown in demand for Chinese exports from key markets such as the US and Europe.

That has hurt China's manufacturing and export sectors, which are key drivers of its economic growth.

Prompted by the slowdown in external demand, Beijing has been trying to boost domestic consumption in an attempt to rebalance the economy and sustain high levels of growth.

Last month the government suspended value-added tax and turnover tax for small businesses with monthly sales of less than 20,000 yuan ($3,257; £2,125).

The decision is expected to benefit more than six million small companies and boost employment.

Beijing has also said that it will implement measures to simplify customs clearance procedures, cut operational fees and facilitate the exports of small and medium-sized private enterprises.

Mr Haibin said, "the recent shift in the policy stance and more concrete policy announcement" had been a key reason behind the recovery in the sector.