In the immediate 5 years, Hong Kong will enjoy some of the strongest inflows of business opportunities and talents in our history. If Hong Kong people think through the issues calmly and sensibly, we can capture these and enhance the long-term growth and quality of our economy, thereby supporting jobs and fostering social harmony for the next generation. If we choose to do nothing and allow these opportunities to disappear, we may well regret the decline that may follow the Golden 5 Years.

Our younger generation, in particular, should be more proactive in changing to a pro-growth mindset in the Golden 5 Years as what they choose will likely define their next 50 years.

HKGolden50 is an optimist – we believe Hong Kong’s golden years will run far into the future because Hong Kong people will choose wisely. Our mission is to encourage awareness, discussion, research and ownership of these immediate issues in society in the hope that Hong Kong can move forward boldly again.
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1: Summary: The Golden 5 Years – Pivotal Period for Building a Bigger and Better Hong Kong

We, at HKGolden50, see a fortuitous combination of social and economic factors ushering in a period of high economic growth with better public policies to match. In the period that began in 2010 and which will likely last through 2014, “Hong Kong’s Golden 5 Years” as we characterise it, we shall enjoy an abundant inflow of opportunities, capital and talents. Underscoring this boon is the recently released Q2 2011 real Gross Domestic Product (GDP) data, marking the sixth consecutive quarter that our economy had expanded at a rate faster than its 10-year average. Nominal GDP is forecast to reach 12.1% in 2011, and will likely remain at this lofty level for the next two years, marking this as the fastest growing period since the handover.

The “Golden 5 Years” may post growth some 8 percentage points (ppt) above average 1998-2010.
But such favourable conditions are unlikely to last as “supply side” limiting factors, including near-record scarcity in office/retail/residential spaces and an expected shrinkage in our workforce, will likely frustrate our economic growth.

Office rents will gain 72% overall and 110% in Central, over three years

These constraints will pressure corporates to move their mid-office and back-office functions to lower-rent locations in the region, leaving Hong Kong with mostly front-office jobs to offer its workforce.

Inflation, as with employment, will likely stay high for a few years
Over time, this trend will undermine the job stability of our middle and upper income earners and constrict our service industries. These outcomes may lead to middle class incomes trailing inflation, causing discontent and abort our ambition to become the preeminent International Financial Centre (IFC). Such effects on supporting sectors will hurt every segment of society.

Worse still, while opportunities continue to flow into Hong Kong in the Golden 5 Years creating more jobs across many sectors, our labour force may not increase enough to meet the need. Hong Kong is already at or near full employment and more demand may inflate wages. While the supply of labour has not limited our economy for the past decade, this should rapidly change in the Golden 5 Years.

There are keen and able competitors to Hong Kong in the region waiting to land those businesses which vacate our shores should we ever falter.
What our citizens choose to do in the immediate five years will define the next 50. Every segment of our community has to realise Hong Kong’s prosperous yet precarious state. Each one has to do his share to convert these opportunities into prudent public policies to let us move forward, expand our servicing capabilities significantly, grow our economic stakes and prepare for sustained economic growth and societal improvement for the next 50 years.

This research report is the first in a series that discusses what our community should do to extend Hong Kong’s “Golden 5 Years” into “Golden 50 Years”. Summarizing HKGolden50’s work programme, we conclude that almost all the ingredients for a successful structural upgrading of Hong Kong are present. Fiscally, for instance, HKGolden50 forecasts three successive years of surpluses that should exceed the HK$75bn (4.3% of GDP) of 2010/11, which was already the third highest in our history.

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<th>Fiscal Surpluses 2010/11 – 2013/14E</th>
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<td>(HK$ bn)</td>
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Source: HK Government Budget, HKGolden50

The singular element missing is the “can-do spirit” that was supposed to be encoded in our community DNA but has somehow gone dormant over the past decade. We must now restore our force of character as we once had and strive for a better future with which to pass on to succeeding generations.
(1) Hong Kong Demography – At the “Empathy Sweet Spot” for Positive Policy Changes

The age distribution of the Hong Kong male population shows that the baby boomers aged 45-54 constitute the largest age group. From this, we can add 25 years to estimate the average age of their parents to be 70-79 and deduct 25 years to estimate the average age of their children to be 20-29.

We believe Hong Kong stands at the most emphatic “sweet spot” for public policy deliberation in our history since this biggest group, average aged 50, will care about issues ranging from old people (their parents) to the future of jobs in Hong Kong (their children), issues that span some 50 years of life experience. This group also represents the biggest bundle of votes in the electorate and we should expect them to want to be actively involved in deliberating and shaping public policies in the Golden 5 Years when social and economic circumstances change rapidly.
With experience that saw Hong Kong emerging from a poverty-stricken recipient of development grants from international relief agencies to a city of global standing, and witnessed episodes of tumultuous changes in China in the 60’s, 70’s, late 80’s and the handover in 1997, this boomers group has a particularly wide perspective on Hong Kong and China. Maybe less well educated in the formal academic channels compared with the later generation as they had less financial resources, this group may well be the most open-minded and caring cohort to judge in a more balanced manner the policy direction that Hong Kong should take.

Another ten years from now, this group’s parents will be 80-88, reaching or exceeding their average life expectancies of 80 and 86 for males and females respectively; and for many in the boomers group, they may only have their offspring generation to care about. However, average age for this younger group will have risen to 30-39 and it is doubtful how much “parenting” the boomers group should take on if at all. In any case, the boomers group will have their own health to get concerned about as the medical attention they require is

With this large and able-bodied “Golden 50” group, society should be very open minded in its discussion of changes in public policies. Ten years on, society discussions may become more parochial and inward looking
expected to double. With effectively themselves to “care for”, this biggest voter group is likely to begin to “look inwards” and be concerned with matters more centred on themselves, rather than those that span 50-years of life experience. We expect voter behaviour to become more parochial, potentially rent-seeking and far less empathetic compared with what it is today.

Hence, we argue that the Golden 5 Years hold the best chance for the community to enter into reasoned discussion as to what Hong Kong must do in order to take full advantage of the second growth spurt in our economy. In this respect Hong Kong is fortunate – most societies get only one chance, one growth spurt, in their development and what they built when they were young cast the retirement scene. Thanks to the unique circumstances that bless Hong Kong, we have the opportunity to re-shape our future in the Golden 5 Years.

(2) “One Country, Two Systems” Vs “One Country, One Market”? – A “Backlog” of Flows into Hong Kong has Built Up

If someone new to Hong Kong were to ask about “One country, two systems”, the most probable reference would be to the Basic Law. In essence “One country, two systems” is a constitutional concept setting out the rights and obligations of its citizens. There had been few discussions leading up to the handover or in the years since about how the flow of people and capital should be conducted after reunification. Especially because of the deep distrust in the Chinese government after the Tiananmen events, the impassioned discussions about “One country, two systems” around preservation of freedoms were only reasonable and understandable.
Therefore, “One country, two systems” was not intended to address what types of structures should be instituted to ensure “One country, one market”. Such vagueness differs to the setting up of the European Community which had adopted treaty provisions to ensure the freer flow of people, capital and goods, culminating in a common market. Thus, for instance, a German citizen will need neither to exchange currency nor get a visa in order to work in France.

The irony is that, even though Hong Kong had been the principal gateway to China after the handover, for those from the West who wanted to engage China, our city would be the last place they would visit to conduct business since there were so few mainland businessmen and experts who could make it to Hong Kong in time for meetings. The discrepancy has prompted Western businessmen to bypass the traditional gateway in Hong Kong and access the mainland directly, fuelling the development of the other coastal cities such as Shanghai.

With no clear plans to enable the inflows of tourists, business people and talents from China, “One country, two systems” entered a state of osmosis in the immediate years after 1997. Those who advocated making Hong Kong “cheaper” to entice the Chinese missed the point that there were already affluent fellow mainland compatriots who could afford the supposed privilege.
A barrier was at last breached with the Independent Travel Scheme into Hong Kong introduced in 2003, some six years after the handover, as visitors from the mainland came here in droves, reaching some 23 million in 2011. The traffic increase was far more gradual for the number of Hong Kong residents going north had risen by 35% during this period, while that from the mainlanders coming south had climbed by 500% and the increases were more jagged, reflecting points when flows were improved by new policy measures.

The introduction of Closer Economic Partnership Arrangement (CEPA) on 29 June 2003 marked the first free trade agreement between China and Hong Kong and has facilitated flows of certain types of businesses significantly compared with the previous six years.

HKGolden50 reckons inadequate thoughts were given to facilitate the flow of people (“porosity”), resulting in a “hollowing out” process, characterised by more flows northwards compared with the reverse direction, which frustrated the exchange of people, investments and skills. While this was an inadvertent development serving neither the interests of China nor those
of Hong Kong, it culminated in a backlog that will have to be resolved during these Golden 5 Years. The phenomenon of mainland buyers entering into the Hong Kong housing market started less than two years ago and is likely to continue in the medium term. The influx of mainland service sector businesses also took off less than two years ago and this should also continue for quite some time.

Similar “catch-up” in other areas is likely during this period. Still one should marvel at how much ground Hong Kong has made up over the past decade. In 2000, for every 100 trips made from Hong Kong to China, only 6.5 were made in reverse direction. By the end of the decade, the ratio had risen to 28.6%. Where should this ratio stabilise will continue to depend on how fast the flow can be improved and also importantly, how much Hong Kong can expand its service capacity so that new demand can always be catered for and not crowded out.

Spending per trip by a mainlander greatly surpasses that of a Hong Kong person in reverse. This trend will continue to add to Hong Kong’s surplus in terms of net visitor spending.

As barriers come down, Hong Kong has turned tourism deficit to growing surplus
Before the handover, Hong Kong had already beaten out many regional competitors in being the key international business hub as it hosted the regional headquarters of many multinationals. Had Hong Kong been able to enjoy the freedom of two-way flows with China, and considering the wide service sector quality gap between it and the mainland at the time of the handover, it should not be difficult for Hong Kong to maintain, indeed to further the edge.

In business, flows beget more flows. With strengthening and broadening business connections with the mainland, there are more reasons for organizations from outside the region to come here to access the inflows of business people, capital and opportunities from China and further develop our city’s network with the mainland market. An example is that, with easier access to Hong Kong, more tourists have come south and this upturn in the inflow of shoppers have attracted more luxury brands to set up or expand in Hong Kong. While Hong Kong and China may not have yet fostered the full access convenience that our city enjoys with long-term partners that offer two-way connectivity, this should be the direction in the future as mainland businesses and people have a pent-up demand to tap the world-class services rendered by Hong Kong.

Developments of late, including the visit by Vice-Premier Li Ke Qiang in mid-August this year, will certainly improve such “porosity”, causing previously bunched up business opportunities to cascade into Hong Kong. To seize this opportunity, we must expand our labour force and increase our supply of office spaces to accommodate the infusion.

(3) Economic Centre of Gravity – West-to-East Shift

Unlike the influx of overseas businesses in the past 30 years which have tended to come in waves, counting, for instance, the inflow and expansion of operations of Japanese banks in the late 80’s and the entrance of and scaling up of operations by

More inflows from China will induce more inflows from the world

Vice-Premier Li’s visit has cleared more blockages for Hong Kong

Hong Kong thrives on competition, but loses when flows are not two-way
US investment banks in the early 90’s, the inflow of companies into Hong Kong in the Golden 5 Years will be en masse and multinational.

Data from InvestHK show that in the first half of 2011, the department helped 198 companies set up in Hong Kong, a year-on-year rise of 5%, representing already 70% of the full year 2010 in which 284 cases were reported. No surprise that InvestHK indicated in its mid-year review that “Our pipeline is strong…confident that… (we) will be announcing another record year for the department”.

The number of this inflow assisted by InvestHK did not decline following the Global Financial Crisis of 2008 and 2009 and indeed accelerated in 2010 and 2011 against the backdrop of still subdued global growth.

The global eastward shift of commerce has cushioned Hong Kong against cyclical downturns in the past few years. Indeed, in their study to identify the new “Global Growth Generators” or 3Gs, economists Willem Buiter and Ebrahim Rahbbari (2011) et al. forecast that 11 economies will power global growth for the next 40 years – nine of these in Asia and two in Africa. Supporting this premise, the newly released World
Investment Reports shows that the share of global Foreign Direct Investments (FDI) accounted for by developing countries exceeded that of developed economies for the first time in the 24 years of the study’s history.

Situated geographically in the heart of Asia and sharing Common Law and other market systems of the developed West, Hong Kong should head the race as the preeminent financial and “high-credibility” business (eg healthcare, product certification, valuable goods) centre in the region. A proxy measure of the performance of the finance sector, a core competence of Hong Kong, shows itself in institutions’ ability to pay exorbitant rent and ward off pressure from new entrants and existing ones seeking to expand their presence in Central.

Developing economies took more than half of global FDI for the first time in 2010

The rise of Asia demands a top centre for international finance and credibility services

The rising premium that Central rents command suggests increasing value-add by financial sector
The chart measures the difference between office rents in Central and alternative office locations in Wanchai, Tsim Sha Tsui and Hong Kong East in Hong Kong dollars per square foot (psf) per month. Before the past few years, whenever this differential opened up to HK$20-30 psf/month, a company could save its total rental bill, after allowing for relocation costs and new IT wiring which, when spread over the course of the new tenancy, would amount to some HK$20psf/month. In the past such a rental gap of HK$30psf/month was never sustainable. The Global Financial Crisis of 2008 which hit at the heart of the finance sector, also took the differential back to this level. The recapitalization of this sector in 2009 and 2010 has allowed profitability to rebound and the rental premium to open up to new highs yet again. The reluctance to move should reflect expectations of good profits in the medium term.

But at such levels, businesses should start to rationalise on its space usage by considering lower rental locations outside of Hong Kong and this will hinder our ascension in global market share.
The confluence of the three favourable circumstances just discussed increases the demand for Hong Kong services. The surge of this need resembles the letter “J” when plotted on a chart, thus J-curves. This will be evident during the Golden 5 Years. For now, we will briefly review the implications from the emergence of the first three J-curves.

It is likely that further J-curve demand sources will appear during the Golden 5 Years and we will address these in the rest of our series of research reports. An increasingly pressing question our community will have to answer is whether we have the workers and office space to accommodate and peripheral services to support these opportunities.

(1) Rmb Deposits in Hong Kong

The chart on the stock of Rmb (renminbi) deposit tells the story. The market is ready and willing and it took a change in porosity, this time in the rule change allowing trade balances to be deposited in Hong Kong to release the spring. A top authority in the analysis of Rmb deposits and the development of an offshore Rmb centre in Hong Kong, Mr. Jun Ma, has forecast the stock of Rmb in Hong Kong to amount to Rmb two trillion by the end of 2012. He also expects that the development of many Rmb–denominated products off the back of this enlarging stock of deposits would likely create some 30,000 highly paid financial sector jobs.
Rmb deposits – from near-zero to two trillion in 2.5 years

Hong Kong is a fast-rising International Financial Centre

This translates to office demand of some 4.5m sf or an estimated 1.5 to 2.0 International Commerce Centres atop the Kowloon Station. This potential demand compares with expected annual completion of 1m sf from 2011-15.

With the J-curving of Rmb deposits, and the stepping up issuance by corporates (Dim-Sum Bond) and the Chinese government affiliated bodies eg The China Development Bank, the fixed income market will continue to take off during the Golden 5 Years and will help Hong Kong narrow its wide gap with London.

Hong Kong has made great strides in broadening and widening its financial sectors in the past few years. This is mirrored by the sharp improvement already made in the Global Financial Centres Index, compiled by an independent consultant firm in London. Further porosity improvement vis-à-vis China should give Hong Kong the extra boost needed to catch up with the two global leaders of New York and London on this Index.
(2) Visitor Arrivals – from All Sources

We discussed the arrivals from China in some detail in a previous section and will only highlight a sustained high rate of growth as forecast by a study by the Hong Kong Tourism Board, HK PolyU and Savills, despite an already high base.
The J-curving of arrivals, especially from China, together with a pick-up of per person spending, has spurred tourist generated revenue dramatically, rising more than fivefold over the past nine years.

Mainland Visitors' Spending

HK$ bn

2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

0 20 40 60 80 100 120

Total Spending Excl. Hotel Spending Individual Visit Scheme Global Financial Crisis Source: Hong Kong Tourism Board

(3) Use of Hong Kong’s Healthcare System

The phenomenon of mainland mothers flocking to Hong Kong’s maternity wards is well reported and discussed in the media and we will not dwell on the subject. Notable, however, is that many more mainlanders, having been acquainted with the standard of healthcare services in Hong Kong, will come here to seek treatment and put tremendous strain on our already stretched healthcare system which has done little to respond to this likely scenario. HKGolden50 will prepare a research report on healthcare, a long-established competence of Hong Kong. Our first medical school predates the setting up of the University of Hong Kong which is celebrating its centenary this year.

Inflow of healthcare demand – going beyond maternity care
4: New Demand is Displacing Existing Demand – Prompting Locals to Reject New Opportunities

With services accounting for 93% of our GDP, Hong Kong is the most service intensive economy in the world. As more customers come to use our services in Hong Kong, more jobs across the sectors will be created to the benefit of all our citizens.

The problem here is that what the J-curves bring is not an evolution of demand but the displacement of existing demand. The new demand is not like that of consumers switching their preference for a better brand or product, so that the less popular fold, vacating the space to the better performer.

In the case of the J-curves, the existing demand is alive and thriving. A feature of the surge in Chinese tourist spending is the preference for luxury brands, watches and jewelry. The adjustment to serve this demand took only some 18 months for half of Queen’s Road, Central, to switch to this bias. For the longest street in urban Hong Kong, Nathan Road in Kowloon, almost a third of the space was similarly converted in some two years. Over this period, local demand for fast food and Chinese restaurants, affordable fashion, leather goods and music shops has not abated but grown. Enjoying the fatter margins offered by the sale of luxury items, their purveyors can often outbid suppliers to local customers for shop spaces, pushing rents to record levels.
Even for shopping centres that cater more for local demand, pressure on rents has risen as some high-street shops have moved in but only to push rents up in community spaces.

The solution for the happy development of having more customers for Hong Kong must be that we should grow our “shopping pie” – creating more spaces so that the enlarging demand from locals and visitors can both be served. Retail, catering and hospitality sectors provide employment for an estimated 30% of our workforce and they have a lot of room to grow when spaces can be found. We must explore new land use possibilities and, considering the record low vacancies in retail spaces, all new space is good for job-creation. We will explore the subject of finding new spaces in a separate research report. Possibilities are more available that we may think. Our early work has shown that unused land reserves near Tung Chung and the airport, for instance, can provide relief in the medium term.

Win-win solution for visiting and local shoppers is to increase supply of retail spaces

Shopping centre rents are c60% above their 1997 peak

Prime street shop rents have more than doubled their 1997 peak
5: Time to “Grow the Pie” or Invest in New Service Capacity and Capabilities – We have the Needs, the Means, but Not the Will?

A successful “World City” requires an ecosystem of quality service sectors to support its efficient function. These include a medical system that responds to society’s needs speedily and an education regime that provides the economy with the skilled talents to propel its growth. We believe both sectors are over-stretched in Hong Kong. We should bolster public and private healthcare facilities, including the training of more local doctors and the recruitment of overseas-qualified ones.

Hong Kong should also expand faculties that train up business sector students. Greater efforts should also be made to increase the capacity of international schools to educate children of overseas and mainland executives.

Hong Kong must cultivate mainland business networks and persuade them to set up here. Over the past century and more we have fostered comprehensive business linkages with the mainland. Future improvement from this substantial base may appear marginal. What is not to be ignored are businesses in China that are still unfamiliar with Hong Kong’s capabilities as a servicing base. This area offers significant potential. When these businesses set up operations in Hong Kong, they will be bringing their connections and knowledge in the mainland, thus enriching us immensely. A more integrated mainland network will also enhance our appeal as a gateway to China, an opportunity not to be missed.
Local universities should enroll more mainland talents and offer, under certain criteria, Permanent Residence status as extra inducement. The “local” experience they bring to Hong Kong and their ability to network Hong Kong into China will make them highly valuable additions to our talent pool and help relieve our increasingly acute labour shortage.

Having stated our “wish list” for the Golden 5 Years, we will assess whether our prescriptions are realistic. HKGolden50 believes five ingredients are essential for Hong Kong to live up to its potential. These are:

1. Business opportunities – we have these in abundance in the Golden 5 Years. The InvestHK report also proves this.

2. Private capital – there is plenty of money within our community and from outside investors. Hong Kong ranks as a top three recipient of FDI in the world, first time in our history, according to a recent study.

3. Talents – the third generation of Hong Kong people, in their 20’s and 30’s, is our most educated. Together with the inflow of mainland talents who have studied and worked abroad, and experts from the rest of the world, there is no shortage in brain power. The Hong Kong boom and our openness will continue to attract the best as revealed in the near record job vacancies.

Golden 5 Years opportunities have fuelled record hirings

Source: Hudson Reports

Hudson Hiring Index (Hiring less Firing)
(4) Public capital – The abundance of business opportunities, coupled with the low cost of funding, should produce generous profits and land sales proceeds for the Golden 5 Years. These, HKGolden50 estimates, can fund a proactive public spending program with little or no drain to our fiscal reserves.

![Profits Tax and Fiscal Surplus](image1)

A period of fiscal abundance – but distribute we shall not as there are lots to build for future.

![Profit Share of Nominal GDP](image2)

Hong Kong is even more profitable into the Golden 5 Years.

The gist is that Hong Kong needs to overhaul and greatly expand its entire infrastructure of service provision to profit from the wealth of opportunities in our Golden 5 Years. We need more hospitals, universities, schools, offices, shops, malls, transport, hotels, places of interests for visitors as our economy is fortunate.

Investment in a bigger service infrastructure will pay for itself.
enough to enjoy a second growth spurt when we already have a matured economy and a matured population. New investments will likely and easily pay for themselves.

Long-series economic research in the US has shown, for instance, that spending on medical care has generated a return in excess of 18% for the workforce. Education spending, in contrast, has produced a return of 12-18%. Compared to the 2-3% of interest Hong Kong earns from our holding of US treasuries, and the jobs such a switch in investment to direct spending on healthcare and education will create, there can be few valid arguments to prevent Hong Kong from going ahead, especially when demand for expertise is clearly expanding at a rapid rate. How to invest HK$100bn for the next generation is the subject of a separate research report by HKGolden50.

![Fiscal Surplus as % of GDP](source)

(5) The Will to Change – The singular problem that thwarts Hong Kong leveraging on the Golden 5 Years for the longer term is not material but moral. This is to say the ebbing of the “can-do spirit”, the rectitude, the perseverance. This should come as little surprise if we reflect on the changes over the past 14 years. In 1997, Hong Kong was building 35,000 private housing units, constructing new hospitals, new schools, new railway links, new large scale integrated commercial complexes and new towns. Some 14 years later, we are closing schools and building but 10,000 private housing units and no large scale commercial complexes.
A pre-eminent scholar in Economics of Hong Kong, Professor Richard Wong has argued that “nothing focuses the mind better than hunger”, referring to how Hong Kong was shut off its lifeblood entrepôt trade because of the Korean War embargo in the 1950s. The punitive action sanctioned by the United Nations stifled trade flow so much that it took a decade to recover and, in the interlude, Hong Kong had eked out a new livelihood out of light industries. Enjoying near full employment and a good degree of nominal wage growth, Hong Kong is not hungry but could be smug. Creating change in the Golden 50 Years will be a challenge to the collective rationality of our community in the face of complacency.

The blunt fact is that the collective mindset of Hong Kong community is more cautious than adventurous. This is a problem that afflicts not only Hong Kong, but also most developed economies, as the population ages and loses its vim and vigor. What helps us, as a community, is that unlike the rest of the developed world, Hong Kong experiences a second growth spurt, a new spring, in which we, as a community, can re-shape our future.

Another way to relate the collective mental challenge our community is to ask the reader what he or she would have done 14 years ago, if they were faced with the opportunities they see today. HKGolden50 has no doubt the outcome would be very different if our community can summon anew our “can-do spirit” when we assess our prospects and contemplate our possibilities in the Golden 5 Years.
6: If we do Nothing in the Golden 5 Years, Can we Defend what Hong Kong has? Unlikely... Opportunities wait for No man

We will use the finance sector as an example here but similar effects do apply to other office-based sectors of society. Despite the mixed backdrop of a slowing, debt-ridden western world and a growing, cash-rich Asia, Hong Kong’s financial markets look set to continue their rapid expansion of the past few years. The consequent shift of economic gravity eastwards has opened up the opportunity for Hong Kong to become the preeminent IFC of Asia and rival the best in the West. Hong Kong must expand with the utmost urgency our capacity and capabilities in the finance sector to seize this opportunity.
The most immediate obstacle to the growth of finance sector is our limited office space. With demand so high and vacancies amongst the lowest in history, office rents are at historic highs. At the end of June 2011, Hong Kong prime office rents (the average of the most expensive five buildings in a city) are more than double those of Singapore, triple those of Shanghai, according to Savills, a top global property consultant.

These costs also put Hong Kong as the most expensive spaces in the world and potential entrants into Hong Kong will hesitate about coming and may choose lower-rent locations in Asia. The way rents have already taken off since the beginning of the Golden 5 Year period means that, by the time a standard three-year lease goes into renewal by the end of 2012, the rent will be some 73% higher, reaching some HK$13,000 a month per employee just to have a seat in the average Grade A office in Hong Kong, and 110% higher to around HK$25,000 for offices in Central, citing forecasts by Savills. The new rent levels may potentially be higher than the salaries of many layers of support staff.
Hong Kong may have made the “tough wins” in IPO products, but we may miss the “easy wins” of other financial services.

The expected pace of rent rise will pressure the large multinationals with existing offices in Hong Kong to rationalise their operations, shifting mid-office and back-office functions to lower rent locations, and leaving only the higher-revenue-producing front-office jobs in Hong Kong. While Hong Kong topped the global equity markets in raising funds through Initial Public Offerings (IPO’s), one of the most lucrative financial products, it may not be able to broaden the financial product range to include middle-yielding services as rental costs become more and more severe.
Hong Kong talent pool was much deeper than Singapore’s some eight years ago. This will inhibit Hong Kong’s development as a full-service IFC in the mold of London and New York. Over time, this will undermine the job stability of our upper and middle classes with repercussions for all the rest as well as crimp our ambitions as a financial hub extraordinaire.

But do the other cities in the region possess the necessary skills to take the spillage from Hong Kong? A study of the Finance and Business Services sector (F&B) by Savills shows that while eight years ago the employees pool in Hong Kong, numbering some 550,000 greatly exceeded the 310,000 in Singapore, this gap has significantly narrowed by the end of 2010.
Singapore is able, willing and hungry for Hong Kong’s business

This is no longer the case today

Despite government’s designation of finance sector as growth industry, Hong Kong’s employment pool expanded only by 18% to some 630,000 over the eight years. In sharp contrast Singapore’s pool surged 83% to some 590,000 over the same period. Dubious is the argument now that Singapore does not have a deep enough pool of talents to match ours.

Digging into the detailed usage study on large global financial firms which have significant flexibility in re-arranging their service functions across Asia, Singapore has gained a lot of ground on Hong Kong over the past eight years. Some large institutions now have a bigger operation in a smaller Singapore than they have in Hong Kong.
All key global investment banks have significant operations in Singapore with some bigger than theirs in Hong Kong.

Most people in Hong Kong thought over the past eight years that our biggest competitor would be Shanghai. How delusional. We have competent competitors in our neighborhood. If Hong Kong cannot grow our service capacity and capabilities significantly in the Golden 5 Years, our rivals will only be too pleased to entice away our customers. Once multinationals have sunken roots and established an operation hub there, it would be very difficult to lure them back. Jobs, therefore, will be lost for the next generation.

A greater supply of top grade office spaces in convenient locations must be a top priority for Hong Kong in our Golden 5 Years.
In the immediate 5 years, Hong Kong will enjoy some of the strongest inflows of business opportunities and talents in our history. If Hong Kong people think through the issues calmly and sensibly, we can capture these and enhance the long-term growth and quality of our economy, thereby supporting jobs and fostering social harmony for the next generation. If we choose to do nothing and allow these opportunities to disappear, we may well regret the decline that may follow the Golden 5 Years.

Our younger generation, in particular, should be more proactive in changing to a pro-growth mindset in the Golden 5 Years as what they choose will likely define their next 50 years.

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