

# Hong Kong enters recession

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Hong Kong, one of Asia's most important financial centres, officially slid into recession on November 14, joining Singapore and followed by Japan three days later. The territory's gross domestic product (GDP) fell by 0.5 percent in the third quarter on a quarter-to-quarter comparison, after a contraction of 1.4 percent in the second quarter.

Government economist Helen Chan declared: "The global financial turmoil has derailed the economic upturn that Hong Kong has enjoyed for the past four years." Over that period, the growth rate in Hong Kong has averaged 7.3 percent, among the highest in Asia.

Chan forecast growth of all 2008 of 3 to 3.5 percent (down from the previous 4 to 5 percent). However, the two consecutive quarterly contractions mean that Hong Kong is in recession for the first time since the outbreak of SARS (Severe Acute Respiratory Syndrome) in 2003 that devastated tourism and retail.

The IMF's prediction for Hong Kong in 2009 is just 2 percent. Other forecasts are gloomier. JPMorgan economist Qian Wang is warning of a 1.3 percent contraction. Credit Suisse analysts are even more pessimistic, estimating minus 2.2 percent in 2009.

Hong Kong's share market has shrunk by 60 percent this year. Lee Shau Kee, the world's 22nd richest billionaire who is known as "Hong Kong's Buffett", admitted to the media on Wednesday that he no longer understood the stock markets. Another billionaire property developer, Stanley Ho, said he feared that the recession in Hong Kong was likely to last at least two to three years. Macau, where Ho has major gambling interests, is in even worse shape due to its dependency on the casino boom, which is collapsing. Ho said that

he has been praying every night for Hong Kong and Macau's economic prospects.

The financial sector is deep trouble. Hundreds of small investors lost their savings by buying "mini bonds" issued by failed US investment bank Lehman Brothers. They have staged protests demanding compensation and that the commercial banks be punished for selling "toxic" products. Many firms have invested large sums in securities and commodities and are believed to be highly exposed to the global financial turbulence. CITIC Pacific Ltd, headed by the family of late "red capitalist" Rong Yiren, lost nearly \$2 billion from a leveraged foreign exchange contract in an Australian iron ore project.

Faltering exports to the US, the global credit crunch and China's slowing economy are all factors in Hong Kong's recession. The result is a rising number of layoffs, ranging from banks, restaurants and retail chains. The unemployment rate is 3.6 percent, up from 3.2 percent in the May-July quarter, but analysts warn it will rise rapidly as the "financial tsunami" hits the city with full force. In the last recession in 2003, the unemployment rate hit 8.5 percent.

The HSBC cut 450 employees on November 17, after slashing more than 100 jobs in September. Hundreds of jobs at the Development Bank of Singapore (DBS) are due to be axed. The insurance firm, AIA, owned by the troubled US-based firm AIG, has fired two dozen telephone marketers. Luxury retailer Lane Crawford has fired more than 10 percent of its Hong Kong employees, while Asia Television sacked 47 staff due to cutbacks in consumer advertising. The trading giant Li & Fung cuts announced 150 jobs would go as its main revenue source in the US is in trouble and its clients, the retailer Mervyns and Goody's Family

Clothing, have been bankrupted.

More dramatic job losses are likely from business failures such as Tai Lin Radio Service Ltd, a 60-year-old electrical appliance retail chain. U-Right International Holding Ltd, which operated 600 clothing outlets in Hong Kong and China, has also been liquidated. Krispy Kreme Doughnuts Inc, the second largest US doughnut chain, has shut seven stores in Hong Kong, just two years after opening. On November 11, Meguro Sushi closed its nine outlets and two cafes, owing \$HK2 million to its 270 employees. The company had closed other outlets in Hong Kong earlier, due to an "oversupply" of restaurants, amid falling consumer spending.

Most of Hong Kong workforce is employed in services, retail, tourism and the logistical and financial sectors, as the city's manufacturing base has shifted to China's neighbouring Guangdong Province, where Hong Kong firms employ 11 million workers. However, tightening credit in Hong Kong and falling orders from major Western markets, especially the US, are threatening to cause escalating job losses in China. According to the Federation of Hong Kong Industries, a quarter of Hong Kong-owned firms in Guangdong will go bankrupt by the end of January, leaving two to three million workers jobless.

Hong Kong manufacturers have called on Chief Executive Donald Tsang to ask Beijing for help, including changes to China's new Labour Contract Law that significantly increased the cost of labour for export firms.

With \$HK1 trillion (\$US130 billion) in the Monetary Authority's coffers, the Hong Kong administration is attempting to stimulate the economy by stepping up infrastructure projects, providing loan guarantees for small and medium businesses and giving limited handouts to the poorest sections of the population.

Share market losses have already eaten away the pension funds of two million workers. According to a recent survey, about 20 percent of workers have suffered losses of more than 40 percent of their superannuation. More significantly, none believed the

compulsory savings would be adequate for their retirement. Welfare and protection for workers in Hong Kong is very limited.

Social discontent will inevitably erupt in Hong Kong, which, according to the UN, has the highest level of social inequality in Asia. The city has more than 1.3 million people or one fifth of the population living under the poverty line of \$900 a month for a two-person household and \$1,500 for a three-person family. By contrast, the *Forbes* list of Hong Kong's 40 richest individuals published in January had a combined wealth of \$179 billion—\$59 billion more than the comparable group in mainland China.

There are signs of political radicalisation, especially among young people. Three members of the middle class protest group, the League of Social Democrats, were elected to the Legislative Council with 10 percent of the total vote in September. The openly big business Liberal Party was virtually wiped out in the same election.

A poll by Hong Kong University last week found that support for the government has plunged sharply by nearly 20 percent in the past six months. Only 24 percent of respondents "felt positive" towards the government, while those who "felt negative" towards Chief Executive Tsang almost doubled.

It is worth recalling that in the midst of the 2003 recession, hundreds of thousands of people took part in protests demanding greater democratic rights. Underlying the movement were deep concerns over rising unemployment and poverty. Chief Executive Tung Chee-hwa was finally forced to step down in 2005. Already there are signs that the current recession will outstrip the 2003 downturn in severity.



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