

Introduction

A clear message came from Vice-President Zeng Qinghong: "HK is back on track". However, Mickey marched in smog: Disneyland was opened in scorching heat and a blanket of thick smog.

Domestic politics

Drafters asked to guide Basic Law: Beijing has asked the drafters of the Basic Law to recall the intentions behind provisions in order to avoid future disputes. There are four main points of contention:

- Article 43 says the Chief Executive shall be accountable to the central government. So can Beijing sack him or her?
- Articles 45 and 68 say electoral methods shall be determined in accordance with the principles of gradual and orderly progress. So when can HK have universal suffrage?
- Article 46 covers how long a chief executive serves.
- Articles 64 and 73 are unclear on Legco's power to hold confidence votes.

Vice-President Zeng Qinghong's visit to HK: He is the first senior leader to visit after the July 1st, 2003 protests. He attended the opening of Disneyland and delivered two main messages: HK is back on track and all political sides should reach a consensus on political reform for 2007-2008. His visit is seen as a charm offensive by the state leadership to boost Mr Tsang's credibility ahead of the release of constitutional reform proposals and the policy address next month. Zeng's good words for Tsang are in sharp contrast with Hu's dressing down of Tung last December. He added that HK authorities had accomplished good work but that more should be done in order to secure the city's stability and prosperity. There was no direct contact with the pro-democracy camp which had hoped for an ice-breaking meeting but its leaders attended the official dinner.

Beijing to back Tsang in show of privileges: The central government is expected to deliver wide-ranging economic and social liberalization to HK, including allowing local banks to conduct a wider scope of yuan business, national residency rights for SAR students and allowing more service industries to set up mainland businesses.

Legislators' trip to Guangdong: It is the first time that some democratic legislators have been allowed into China since 1989. The journey offers a chance for progress of Beijing's charm offensive towards democrats and represents not merely political expediency by the central government but a fundamental change in its mindset towards political dissent. It marks a relaxation of the no contact policy. During their trip pro democracy legislators renewed calls to reverse the official verdict on the June 4, 1989 crackdown which provoked a tense exchange with Guangdong authorities. The meeting was cut short but for most lawmakers the experience was not a failure but a first step. An editorial stressed that breaking taboos is vital for sake of harmony and that both sides need to confront differences. The Chief Executive, somehow on the defensive, said it was a candid and honest exchange of views.

International affairs

HK prepares for WTO: The way the city handles globalization foes will carry high stakes. The level of protest and dissension permitted will be seen as a barometer of Beijing's willingness to uphold principles of freedom in HK. In a tough warning to anti-globalization protesters the Secretary for Security vowed to bar known trouble makers (those who throw stones and bombs and act against public order) from entering HK during the WTO ministerial conference sparking fears that authorities are compiling a black list of opponents.

US support for universal suffrage: In the strongest US support for universal suffrage in HK, the new American consul general emphasized that greater democracy promotes stability and that stability without democracy would be illusory adding that universal suffrage could have been introduced in 2007 despite Beijing's decision against it last year. The HK government answered it hoped foreign governments would respect the principle that constitutional development should be taken forward according to the Basic Law and the decision of the National People's Congress Standing Committee.

Transborder affairs

Help lacking over border: As the number of HK people travelling and working on the mainland surges, a majority feels they are not getting enough support from the HK government when they run into trouble. Their number has almost tripled in the last ten years reaching 240,000 in 2004.

Buffer zone on border likely to be opened up: Low-density development and eco tourism will be allowed on the land next to the China border which has had restricted access until now.

China's prime minister's visit promotes better Shenzhen-Hong Kong ties: Wen's visit sets the tone for Shenzhen's attempts to reposition itself including working on stronger ties with HK. It is expected that the central government give the border city a freer hand to deal directly with the SAR. He told Shenzhen authorities that their mission was to support the prosperity and stability of HK and especially improve communication and coordination in town planning, industrial development, major infrastructure projects, public order and environmental protection. The aim of Shenzhen should be to achieve a win win scenario through cooperation.

HK asks neighbours to track WTO protesters: Police have asked their counterparts in Macau and Guangdong to help monitor the movement of protesters coming to HK for the WTO conference.

HK must take the lead in its dance with partners across the border: To ignore Guangdong's party secretary pan-delta initiative would be to risk ceding regional leadership to Guangzhou which is eager to reclaim its historic role as South China's leading commercial centre.

Guangdong in crisis: The province's status as the mainland economic leader is imperilled, admits Guangdong Communist party chief. He cites the fierce competition from the Yang Tse River Delta and the Baohai Rim as well as challenges such as air pollution, food safety and security. He stressed that HK and Guangdong are inseparable as 70% of Guangdong capital and 80% of its tourists come from HK.

Key points of the HK-Guangdong Co-operation Joint Conference: 1) Set up notification system on food-safety measures. 2) Relax rule on provision of drivers for cross-border commercial vehicles and extend contract of cross-border transport joint venture. 3) Release daily air monitoring data from regional network in HK and Guangdong this year. 4) Step up co-operation in cross-border business sectors, including initiating a clean-air charter and further studies into industrial restructuring and development in the west of the delta. 5) Joint overseas promotion of the Pan-Pearl River Delta region. 6) Joint research and development platforms and improved exchanges between R&D institutions. 7) Strengthened co-operation on series of infrastructure developments, including HK-Zhuhai-Macau bridge and regional express rail link. 8) Attract more Guangdong enterprises to invest in Hong Kong, and vice versa.

Cost disputes halt HK-Zhuhai-Macau Bridge project: Plagued by disputes over financial planning, the HK-Zhuhai-Macau Bridge project has come to a standstill. The deadlock was the result of disagreements over different proposals concerning supporting facilities for the bridge.

Legal affairs and human rights

Activists demand law reform to combat domestic violence: Frustrated by what they perceive as the government's reluctance to adopt a "zero tolerance" attitude towards domestic violence, activist groups, especially the Women's Coalition for Equal Opportunity, are putting intense pressure on the government to reform the law.

Falun Gong faithful on watchlist: In an undergoing judicial review of the case barring entry to Falun Gong members for security reasons, the lawyer of the group contended that the decision of the immigration director was unlawful and unreasonable because it was in fact solely based on religious belief and amounted to a form of religious discrimination. A High Court judge issued a sharp rebuke to the administration saying the latter cannot hide behind the word "security" in barring Falun Gong members.

HK pledges to adopt UN child-protection law: During a UN Convention on the Rights of the Child hearing in Geneva the HK government representative declared that there is every intention to apply to HK the Optional Protocol on the Sale of Children, Child Prostitution and Child Pornography.

Economy

Opening of HK Disneyland on 12 September: It launches HK's "tomorrowland". Mainland tourists are expected to spend more and stay longer in HK after the opening of Disneyland Resort. Chinas VP Zeng Qinghong assisted the opening ceremony on 12 September. Chief Executive Donald Tsang expects that the Park would provide thousands of direct and indirect jobs and, over the long term, bring billions of dollars of benefits to the HK economy. The opening ceremony was accompanied by protests of activists from political, religious and labour concern groups. HK puts HK\$23.4 billion into the project and owns 57% of its stake. A government fact sheet says the opening will generate 18,400 jobs, which will grow to 35,800 over the next 20 years. The net economic benefit will reach to HK\$148 billion over 40 years. However, many economists are doubtful about the figures. They admit nothing will be measurable until the park has been up and running for at least a year.

Economic growth: HK registered 6.8% economic growth for the second quarter of 2005, far exceeding original estimates of 4.5 to 5.5%. Officials are reluctant to adjust their projections for the entire year because of uncertainties ahead: HK will remain vulnerable to runaway of oil prices, growing protectionism in trade and bubbles in the US property market. Consumer spending jumped 7% to reach HK\$17.4 billion year on year in July despite soaring oil prices and rising interest rates. Improvement in employment conditions, inbound tourism and healthy development of the property market had all benefited retailers. The robust economy is expected to boost government receipts of salaries and profit tax this financial year

by almost \$4 billion compared with the previous year. Unemployment rate stood at 5.7% in August, remaining unchanged for 4 straight months. The total no. of jobs increased to an all-time high of 3.39 million but the labour force also surged to a record high of 3.6 million. Exports in August rose 13% to HK\$206 billion, year-on-year basis, after growing 8% in July. Imports increased 13% to HK\$210 billion.

Tourism: A total of 2.07 million visitors arrived in July, up 3.8% year-on-year basis, despite the fact that July is a traditional low tourism season. According to HK Tourism Board, tourism is expected to hit an all-time high next year with a projected 27 million visitors, up from an estimated 23.4 million by the end of this year. They are expected to pump HK\$114 billion into the economy, a 16% increase from this year's estimated HK\$98 billion.

Record number of foreign firms in HK: The number of overseas and mainland firms with regional or local offices in Hong Kong reached a new high in 2004, partly thanks to the Closer Economic Partnership Arrangement (CEPA) between Mainland and HK. 5,943 mainland and overseas companies had either regional headquarters, a regional office or a local office in HK in 2004 (5,414 in 2003 and 4,867 in 2002). Mainland companies were increasingly using Hong Kong as a springboard to overseas markets. 257 mainland enterprises were granted approval to invest in Hong Kong between September 2004 and August 2005. The projects involved investments totalling HK\$ 8 billion. According to InvestHK, the latest statistics shows that Hong Kong is host to over 6,200 overseas and mainland companies - strong evidence that international businesses continue to prefer managing their regional operations from HK.

Pay rises at Asia's second lowest: HK's salary growth (3.4%) will be the second lowest in Asia Pacific next year despite its fast economic growth in the first half, according to a survey by a global human resources firm.

Link relisting: The Link Reit (real estate investment trust) listing, tentatively valued at HK\$34 billion, will be relaunched in December with UBS, Goldman Sachs and HSBC as underwriters.

HK\$10b land sale: Property prices look set to boom following the better-than-expected results of land auction of 3 lots that raised HK\$10 billion. The HK Government said it was happy with the result but dismissed fears of a new property bubble.

HK ranking dropped in two surveys: HK ranked 7th (4th in last year) in the world for a business-friendly environment, due to the fact that it takes longer for firms to obtain business licenses, according to a survey by the World Bank. Concerns about judicial independence, rising corruption and intellectual property rights have led to HK's fall down the rankings (dropped seven places to 28th) of the world's most competitive economies, according to the World Economic Forum WEF. Top officials of the HK Government including Acting Financial Secretary, Secretary for Justice and Independent Commission Against Corruption have hit back at the report and claimed the WEF's concerns regarding Hong Kong were unfounded. Switzerland ranked 8th in the report.

UBS's stake in Bank of China: UBS announced that they were investing 645 million Swiss francs (HK\$3.9 billion) in state-owned Bank of China, the nation's second-largest bank, to create a partnership in investment banking and securities services for Chinese clients. They were also in talks to restructure the operations of Beijing Securities and planned to pay US\$210 million (HK\$1.6 billion) for an equity stake in the Chinese brokerage.

Credit Suisse dropped offer to buy US\$500m CCB stake: An offer from Credit Suisse to invest US\$500 million in China Construction Bank's (CCB) upcoming global share issue has been abandoned after months of negotiations. The decision was taken in order not to delay the listing of the mainland bank any further.

Johnson Electric/Saia-Burgess: A 700 million Swiss Francs offer by Johnson Electric, the world's second-largest micro motor manufacturer, to buy Swiss electronic firm Saia-Burgess is now likely to proceed after a rival bidder dropped out the race.

Swatch eyes strategic stake in distributor: Listing candidate Xin Yu Hengdeli, the mainland's largest watch distributor, is in talks to bring in the world's biggest watchmaker, Swatch Group, as strategic investor. Swatch Group may buy about 8.3% stake or HK\$115 million, market sources said.

Health

Bats could trigger a sars-like epidemic: Expert warns that bats (that can be used in Chinese traditional medicine) are the reservoir of a Sars coronavirus-like virus according to HKU microbiology department.

Food safety: While the government has still to come up with an effective measure to help restore people's confidence in the safety of their food, research shows that the local population has temporarily changed its eating habits. Hong Kong and Shenzhen officials agreed to set up a notification mechanism on food safety across the border, with both sides promising to report suspected cases to each other.

39% of HK people are overweight: According to the Department of Health, HK ranks among the top three Asian countries in terms of the number of overweight people.

Bird flu: HKU microbiologists have warned against misusing oseltamivir (Tamiflu) – the antiviral drug that governments are stockpiling against a potential pandemic caused by the H5N1 virus. Amantadine, a far cheaper drug than oseltamivir, helped control the H5N1 outbreak in HK where it made the first known jump to humans in 1997.

Environment

Pollution: The highest pollution level measured so far this year in the HK Region was measured on September 12. The combination of very little wind combined with high temperatures is believed to be the main reason for this problem. Environmental groups criticised the government suggesting it should push the city's energy companies to develop renewable energy for the Pearl River Delta and also to pursue more aggressively measures to increase energy efficiency.

Macau

Legislative elections in Macau: On September 25th, 12 of the 29 members of the Legislative Assembly have been directly elected. The competition was fierce with 127 candidates competing for the 12 available seats. Opponents to the government have scored well mainly because the current economic boom has not yet brought any benefit to large layers of the population. More than 1000 people have been arrested in Macau's biggest vote-buying scandal. One of the candidates had asked employees and friends to vote for him and bought their votes.

Macau government takes charge of North Korea-linked bank: The Macau government has taken charge of Banco Delta Asia BDA, a bank accused by the United States of aiding illicit North Korean activities amid fears the allegations were ruining the lender. A US Treasury Department report earlier this month put the bank on an international watch list, accusing it of passing counterfeit currency and engaging in money laundering for North Korean clients. Banco Delta Asia customers withdrew some 10 per cent of the bank's capital after the report. The HK Monetary Authority said that they would assess their implications for Delta Asia Credit, BDA's subsidiary in HK.

Varia

WTO MC: Detailed emergency plans are being compiled by every government department to prepare for potential chaos during the WTO meeting in December. The security arrangements have been described as "even more intensive than for the handover ceremonies in 1997". Businesses have been advised not to schedule any important deals during the week of the conference.

Protest leaders criticized the government for failing to cooperate with groups wanting to hold peaceful protests during the WTO meeting. A meeting with a WTO official and a representative of the HK government has ended in frustration.

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