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A condensed press review prepared by the Consulate General of Switzerland in HK

Introduction

Due to the special situation (Financial Crisis), this month's Press Review is mostly focussed on "Economy + Finance", and contains one page more than usual.

Economy + Finance

Delta factory closures to accelerate as orders, credit dry up: The impact of the global financial crisis on HK manufacturers is expected to be worse than that of the Sars epidemic of 2003. As a result of fewer orders and tighter credit, the number of HK-owned factories in the Pearl River Delta that were expected to go out of business was forecast to grow, said Stanley Lau, a deputy chairman of the Federation of HK Industries. "The financial crisis mainly affects the export markets, which will shrink. Not only exports to the US but also to the European market," said Mr Lau. There are more than 70,000 HK-owned factories in the delta.

HK crisis plan as Bush issues alert: The HK Monetary Authority announced a five-point emergency plan to ease the credit crunch in the city's banking system as government officials warned of growing turmoil in the global economy. "We have to prepare for the storm," Financial Secretary John Tsang said. "It is just like taping the window before a typhoon." The measures, which will run to the end of March, will allow the authority for the first time to provide direct loans to the city's banks for up to one month using assets such as mortgages as collateral. Existing funding facilities will be extended.

Worst still to come for HK amid crisis: Despite the passage of the US government's US$700 billion bank bailout, HK must brace for belt-tightening amid the global "financial tsunami", the city's labour chief and a top banker said. HSBC Asia-Pacific executive director Peter Wong warned the impact of the crisis would be "far more severe" than that of the 1997-98 East Asian financial crisis. "This will affect HK and the whole world," he said. The effects would be felt for another 12 months and recovery would take "much longer" than a decade ago.

Amid the gloom, a dash of good news about HK's banks: In the midst of the ongoing crisis in global markets, HK has retained the top ranking as the economy with the world's most sophisticated financial institutions in 2008, according to a report by the World Economic Forum. It's "Global Competitiveness Report 2008-2009" highlights the fact that some regional financial competitors like Singapore and Australia are racing to close the gap - both moved up one place each from last year, to second and sixth spots respectively.

Attack on HK dollar unlikely, say experts: As the plunge of some Asian currencies stokes memories of the financial crisis a decade ago, economists say the HK dollar will probably not be attacked by speculators. The HK Monetary Authority says the currency remains stable and the government is committed to maintaining the linked exchange rate system.

Fallout tipped to hit HK early in new year: HK's economy could begin contracting as early as this quarter although much of the fallout from the global financial meltdown would not hit city until next year, economists warned. "We see the possibility of negative growth in the fourth quarter of this year and the first quarter of next year, when HK will slide into a recession," City University economics professor Stephen Cheung said. "I'm not optimistic." He said small- and medium-sized enterprises would face difficulties amid a slumping economy, which may lead to layoffs.

Crash of 1973 worse, says Arculli: The "great crash" of 2008? Not according to HK Exchanges and Clearing chairman Ronald Arculli, who said that he was not too worried about the economy and that the crash in 1973 was even worse. "In 1973, the Hang Seng Index dropped from 1,700 points to 1,200 ... and finally plunged to 150 points. We will be able to overcome this, as we have already gone through bad times before," he said. But Mr Arculli said other sectors, including retailing, could suffer with the banks tightening access to loans.

Currency reserves tipped to help HK through crisis: HK's foreign reserves could protect its currency from global economic turmoil, the undersecretary for financial services and the treasury, Julia Leung, said. "We'll use all the ammunition if we have to," Ms Leung, a former HK Monetary Authority executive director, said on radio. "HK should have faith." HK's foreign-currency reserves stood at US$160.6 billion at the end of last month, the HKMA announced. That represents seven times the currency in circulation and makes the city the world's ninth-largest holder of foreign reserves.

Yam feels Legco heat on minibonds: Regulators came under fire in the Legislative Council for failing to monitor financial institutions selling Lehman Brothers minibonds, while the city's de facto central bank said it had supervised the sale of complex investment products. Lau Kong-wah said the regulator had been slow to handle complaints and that the HKMA is not capable of supervising banks, but Yam said the authority had warned banks to reassess the risks attached to some complex investment products before the mis-selling scandal broke.

HK government may have to break rules: The government should be prepared to go all out to tackle the widening economic crisis, even if it means breaking some rules, HK General Chamber of Commerce chairman Andrew Brandler said. "The government should be ready to throw moral hazard out the window - throw some of these principles out the window - on a short-term basis [to maintain market confidence and stability]," Mr Brandler said without elaborating. "In extraordinary times, the government should not feel shy taking extraordinary measures." Warning of fiscal deficits amid a shrinking tax base and greater unemployment, Mr Brandler said there was an urgent need for the government to shore up increasingly fragile investor confidence. The chamber expected a global recession next year that might last for a few years, he said, although HK's financial system remained in good shape.

Property agents face ax as market hits "ice age": Real estate agents face the grim prospect of losing their jobs due to the global financial turmoil, which is harming not only the stock market but also the property sector. Centaline Property Agency said it plans to lay off 120 staff by the end of this year under the unfavourable market conditions.

Economists say impact likely to be less than in Sars downturn and Asian crisis: As the Hang Seng Index plunged in recent weeks, one question haunted Hongkongers: will this meltdown be worse than the one during the Sars outbreak five years ago, or even the Asian financial crisis in 1998? While much of the world is describing the crisis as the worst since the Great Depression, local economists tend to believe the impact of the American-originated financial meltdown will be milder. "It will not be worse than the previous crises," said Li Kui-wai, associate professor at City University's economics and finance department. "The main difference is, this time the crisis did not start in HK. So, to a certain extent, the impact will not be very big."

Tsang to head credit crisis taskforce: The chief executive announced the creation of an expert taskforce to tackle the "financial tsunami" threatening HK, and set out to redefine the government's role to intervene in the markets in time of crisis. Donald Tsang warned that the destructive forces originating from the credit crunch in the United States were much stronger and more widely felt than those of the 1997 Asian financial crisis. But he reassured the public that HK could weather the latest storm. "The worst is yet to come. But we shouldn't be afraid because all of us have, in the past, seen more difficult days," Mr Tsang said after delivering the second policy address of his second term.

Huge deficit looms amid global crisis: The government faces a "huge deficit" as a result of the global financial crisis, the chief executive warned. And experts said a protracted recession could saddle the city with five years of budget deficits. Mr. Tsang said that although the world faced a crisis more destructive than the 1997 financial crisis which hit Asia, its impact on HK would not be as severe as the one a decade ago, although economic recovery might take longer this time. The 1998 crisis heralded five years of deflation and a drop in property prices of over 60%.

Crisis catches up with delta: Up to 2½ million people in the Pearl River Delta could lose their jobs in the next three months as the global financial crisis bites deep into the region's real economy, a HK business group has warned. "The flow-on effects in HK will be drastic. It will hit the banks, the service industries, everyone," said Clement Chen chairman of the Federation of HK Industries. "We are very, very worried about our businesses," Mr Chen said. "Our feeling for the medium term is grave and we believe the recession is going to last for some time." He fears a quarter of HK-owned small and medium-sized enterprises (SMEs) will be bankrupt by Lunar New Year.

Beijing still sees HK as global finance hub: The global financial crisis has not shaken Beijing's determination to maintain HK's status as an international financial hub. A leading academic in Guangzhou said Guangdong would also receive an official boost from the State Council in a document mapping the Pearl River Delta's development in the next 20 to 30 years. The Pearl River Delta Development Plan will also reiterate Beijing's plan to reduce Macau's over-reliance on gambling income by making it an international leisure hub. "One is the country will fully support HK as an international transport and financial centre; the other is that it will support Macau as an international leisure centre."

Squeeze on credit could see many HK ventures close: Large numbers of HK-owned factories across the border will be forced to close by Lunar New Year if banks continue to tighten credit, the Federation of HK Industries has warned. Some 17,500 out of 70,000 HK-owned businesses in the mainland will be affected, according to federation chairman Clement Chen Cheng.

Panic worst in a decade: The HK stock market plummeted 12.7% yesterday (27.10.2008), the biggest percentage drop since the Asian financial crisis, as a massive sell-off from institutional investors dragged the index down to its lowest level in four years.

HK dollar offers a port in storm: The HK dollar became an attractive safe haven for institutional investors and major companies as emerging-market currencies continued to tumble. "It's a result of the turmoil in markets all over the world," said Citi economist Joe Lo. "During this period of market turmoil, some investors or companies or banks may shift their funds to HK to seek safe haven." Many Asian countries have seen their currencies weaken sharply against the US dollar in the past few days.

Monetary Authority chief executive urges banks to keep lending: HKMA chief executive Joseph Yam urged local banks to support companies by continuing to lend rather than tightening credit across the board.

"Now should be the time to help each other, not a time for rocking the boat," he said. Mr Yam said banks' caution in lending to each other had spread to retail and corporate customers, while stock and bond markets were no longer functioning as channels for raising capital. "Banking is the remaining channel for funding," he said, "so the duty of lenders is very important."

New measures announced to help SMEs: Secretary for Commerce and Economic Development Rita Lau Ng said the government was planning new measures to help small and medium-sized businesses cope with the financial crisis. She said the government planned to boost assistance provided to these companies through the HK Export Credit Insurance Corporation (ECIC). She said the ECIC would provide funds to cover transactions, which previously it did not cover.

Government has prepared measures, but will not intervene in market yet: The government has prepared a number of measures to deal with the economic crisis, but there are no plans to buy shares on the stock market, Financial Secretary John Tsang said. In the absence of irregular market transactions, the government was not compelled to intervene. Nevertheless, it had prepared contingency plans, he said, after the Hang Seng Index fell 12.7%. "I can't see the need to enter the market," he said, denying that the government had plans to step into the stock market as it did in the 1997 Asian financial crisis. "We have prepared many different measures and we will introduce them when necessary."

Worst-case scenario could bring severe economic depression, government warns: HK may suffer a severe economic depression in the worst-case scenario under the global financial crisis, the government has warned. A government paper reviewing the macroeconomic environment said the local economy was likely to experience a significant slowdown in the coming year, following developments in European countries and the United States. "HK may sink into a quagmire with negative economic growth, plunging asset and property prices, and rising unemployment," the paper predicted of the worst-case scenario, in which Europe and the US fell into deep, long-term recession with the mainland affected. The document said it would be difficult for HK businesses that conducted low value-added processing on the mainland to survive for long. The situation in the goods and services export sectors was not looking optimistic either, it said.

Government urged to help unfreeze credit: HK businesses and exporters urged the government to do more to unfreeze the credit market, despite assurances that companies will continue to be protected from overseas buyers that delay or default on their payments. With banks reluctant to lend to companies over fears the global financial crisis might hurt their ability to repay loans, industry representatives warned the government of dire consequences if immediate action is not taken. The Federation of HK Industries and the Chinese Manufacturers' Association of HK also called for urgent government talks with mainland authorities on relief measures, such as delaying further appreciation of the yuan and planned minimum wage increases in Guangdong.

Local lenders encouraged to support SMEs: Local lenders should adopt a more supportive attitude towards small and medium-sized enterprises (SMEs) during the current financial crisis, the Monetary Authority has said. It would be against their interests to tighten credit indiscriminately out of "generic fear over what the future may hold", Choi Yiu, deputy chief executive of the authority, said yesterday in a circular to all authorised institutions.

Exchange Fund won't escape Q3 losses, says Yam: The Exchange Fund will not be able to escape paper losses for the third quarter, and the investment environment will remain very volatile for some time, HKMA chief Joseph Yam warned. The fund may post a third-quarter investment loss of between HK$40.86 billion and HK$47.67 billion, according to calculations based on Yam's previous guidance.

Domestic politics

The 2008-09 Policy Address can be downloaded from the internet here:
www.policyaddress.gov.hk/08-09/eng/policy.html

What people want Tsang to talk about: Message for the Chief Executive: Talk about economic policies, the job situation and health programs, but please spare us the politics. According to the HK University Public Opinion Program, that is what the people want to hear from Donald Tsang when he makes his policy address.

Bosses vow not to stymie minimum wage: Employers have promised the gloomy economic outlook will not be used as an excuse to delay the introduction of a statutory minimum wage. The vice-chairman of the Chinese General Chamber of Commerce, Ho Sai-chu, who is also an employers' representative on the Labour Advisory Board, said bosses did not want to be accused of obstructing the proposed legislation. Mr Ho said employers accepted the government would draw up the law, which they expected to be announced in the policy address on October 15, but they had urged the government to be cautious.

Chief blamed for ignoring the big picture: Legislators criticized Chief Executive Donald Tsang's policy address for putting too much emphasis on the financial sector and not enough on the overall situation. The traditional motion of thanks was tabled by the Chairman of the House Committee Miriam Lau. Lau and many other legislators said Tsang's address failed to address how to assist industries other than the finance and property sectors. Democratic Alliance for the Betterment and Progress of HK (DAB) chairman Tam Yiu, who declared his party's support for the motion, said there were some imperfections. "It stresses the importance for HK to continue its role as a financial center. It is not wrong to preserve our unique status but we can't just rely on a single industry," Tam said. "Otherwise if it collapses, hundreds of other industries will follow."

Relations HK - Mainland China

Tsang inspired by China's strengths: HK will use the same tenacity and perseverance displayed by the mainland over the past year to face the challenges brought on by the global financial tsunami, said Chief Executive Donald Tsang. He told about 2,000 guests at a cocktail reception marking the 59th National Day that the city must seize every opportunity to extend cooperation with the mainland to meet global economic challenges. He said the past year had been one of joy and sorrow for the mainland, which has proved its strength during the Sichuan earthquake, the successful hosting of the Olympic and Paralympic Games and the recent success of the space program.

Legal affairs and human rights

Domestic workers' groups rally for abolition of levy: More than 100 foreign domestic helpers staged a rally demanding the government abolish a levy they say leaves them open to being unfairly sacked. The protest organiser, HK Human Rights Monitor, criticised the administration for introducing policies that created confusion and led to unfair termination of workers' contracts.

Minimum wage legislation to be introduced: The government planned to introduce legislation on a minimum wage for cleaning workers and security guards, Chief Executive Donald Tsang said. Mr Tsang noted, during his annual policy address, there was now greater support for a minimum wage in HK. "Since we launched the wage protection movement (WPM) for cleaning workers and security guards in October 2006, there has been a gradual shift in the community's attitude towards a minimum wage." But he admitted there were limits in promoting wage protection through such voluntary participation.

Health

Government could serve as health insurer: The government is preparing to add a seventh option for healthcare financing in an attempt to win over critics. Among the ideas its advisers are set to discuss is having the government, rather than private companies, serve as primary insurer for a proposed mandatory medical insurance scheme. "The government can contract out the policies to private operators. There will be a better control on the inflation of premiums," said a senior source close to the discussions. Since insurance companies would not need to spend as much money on advertising and marketing the scheme - costs they pass on in the premiums they charge - the price of insurance would be lower.

Culture and education

HKU blames lack of cash for rankings slip: The University of HK has criticised the government for a lack of research funding after it slipped eight places in one of the world's most influential rankings. It dropped from 18 to 26 in this year's The Times Higher Education-Quacquarelli Symonds university rankings, with Chinese University slipping from 38 to 42. The University of Science and Technology climbed 14 places to 39.

Macau

Curbs on Macau visits tightened: Mainland authorities have quietly extended the clampdown on Guangdong residents visiting Macau. They are now limited to one trip every three months to the casino boomtown, travel agents say. The change follows several rounds of tightening since June which have slowed Macau's tourism growth. It means a Guangdong resident visiting Macau must wait three months before applying for another permit. Until now, residents were allowed a seven-day Macau trip once every two months.

About 300 mark National Day with protest marches in Macau: More than 300 Macau residents took to the streets on National Day to protest against labour importation, graft, poor governance and a lack of public housing. Four small unions staged protests at different times of the day and marched to government headquarters. Most of the protesters appeared to be low-income workers who were angry about the city's 100,000 imported labourers who they claimed had taken their jobs or dragged down wage levels.

Visa curbs stall Macau's casino boom: Macau's booming casino revenue growth came to a sudden halt last month as Beijing's crackdown on visits by mainlanders to the city threatens to derail six years of post-liberalisation gaming expansion. Monthly casino revenue fell for the first time in nearly three years to 6.9 billion patacas, down 3.4% from a year ago and 28% from the previous month, according to unofficial data reported by Portuguese news agency Lusa. September's year-on-year contraction in gaming revenue comes in stark contrast to average monthly growth of 52.5% in the first eight months of the year and was Macau's smallest monthly takings in 13 months. Casino revenue accounted for 60% of Macau's gross domestic product in the year to June and Mr Tam's forecast implies there will be a 36% decline in gaming revenue between September and December compared with the same period last year.

Macao's gambling revenue drops 10 percent in the third quarter: Gambling revenue in Macao fell in the third quarter as curbs on Chinese travel and slowing economies in the region cooled a three-year boom. Analysts said the credit crisis would further dampen the appetite for gambling and stall several high-profile casino projects. Casino revenue fell 10% to 25.99 billion patacas (US$ 3.2 billion) in the third quarter from the previous quarter, according to figures released Monday by the Macao Gaming Inspection and Coordination Bureau.

Macau unveils national security bill: Macau unveiled a draft security bill that appears softer than the HK version that spurred a massive protest in 2003. Macau Chief Executive Edmund Ho said it was a "sacred duty" to enact a national security law, given Article 23 of its Basic Law. Mr Ho also cited the city's reliance on the mainland for its well-being. "The nation's safety, stability, prosperity and strength are of vital importance for Macau's stability and sustainable development. Defending national security is the sacred duty of the SAR government and Macau people," Mr Ho said. (...) Despite avoiding some of the most controversial clauses contained in the 2003 HK version, Macau's national security proposal might still threaten civil liberties, a human rights group said.

Varia

Government to splash out HK$7.2b on cruise terminal: The government will spend HK$7.2 billion to build a cruise terminal at Kai Tak amid fears that surging construction costs and financial turmoil have deterred private companies. This adds to a growing list of projects funded by the administration, including the West Kowloon Cultural District and the bridge linking HK to Zhuhai and Macau.

Cash crisis hits Golden Week trips: The number of mainland tour groups coming to HK slumped by 20 to 30% this Golden Week due to the global financial crisis. National Day arrivals were down 20% compared with the figure for October 1 last year.

Financial turmoil takes gloss off art and jewellery auctions: A number of famed art works and big-ticket jewellery items went unsold at two highly anticipated auctions as the global financial crisis hit the art and gems markets.

City rated poorly by expatriate parents: Expatriates give HK a low rating as a place to raise children because of its high costs and limited outdoor lifestyle, a survey has found. The city ranked 11th among 14 places covered in the poll, conducted by HSBC between February and April. Only the Netherlands, Britain and the United Arab Emirates finished below HK.

HK losing billions for lack of cruise berths: HK is losing out on billions of dollars a year in potential revenue from cruise passengers because it lacks a proper cruise terminal. Inbound Travel Association chairman Paul Leung said many cruise lines exclude HK from their itineraries because of the absence of world class cruise berths. The one to be built at Kai Tak will not be ready before 2012.

Jockey Club warns of rough ride ahead: One of HK's largest employers has warned it may have to lay off staff if the government does not implement measures to help the local racing industry. HK Jockey Club chief executive Winfried Engelbrecht-Bresges also said the club may find itself HK$250 million short at the end of the racing season with regard to the HK$8 billion it has promised the government by way of revenue.

Press articles related to Switzerland and Swiss matters

Swiss salmon catch the first in 50 years (SCMP, 10.10.2008): A salmon has been caught in Switzerland for the first time in 50 years after a round trip of more than 2,000km, raising hopes the fish may soon find its way back to the landlocked country in greater numbers. Angler Thomas Wanner snagged the Atlantic salmon on Sunday, the Swiss Environment Ministry said on Wednesday.

UBS receives US$59.2b in state rescue (SCMP, 17.10.2008): Switzerland gave UBS, the European bank with the biggest losses from the credit crisis, a US$59.2 billion bailout and pushed Credit Suisse Group to raise funds, joining authorities worldwide in bolstering banks. UBS said it would get 6 billion Swiss francs from the government and put as much as US$60 billion of risky assets into a fund backed by the central bank. Credit Suisse raised 10 billion francs from investors including Qatar and Koor Industries of Israel. Switzerland is the last of the financial centres to pour cash into ailing financial institutions after losses on bad debts reached US$647 billion globally and credit markets froze. The government plans to raise deposit guarantees and is ready to back the short and medium-term interbank loans of Switzerland's banks, after countries across Europe took similar measures. "At last the Swiss are doing something," said Peter Thorne, an analyst at Helvea. "They risked getting left behind by their European rivals and paying the price for slowness."

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