

### Economy + Finance

**Act fast on challenges, HK urged:** Part of HK's financial activities may move north to tap mainland sources as Shanghai gradually upgrades as an international financial services center, according to a Bank of East Asia report. The report urges HK's administration to look into the territory's own comparative advantages and develop into a wealth management center for affluent Chinese. But a banker warned: "HK needs to be fast in transforming into a more internationalized center in light of Shanghai's competition." He worries that, if HK cannot position itself as a financial center for diversified international firms, its niche will be eliminated.

**OECD leaps to defence of HK's tax system:** The Organisation for Economic Co-operation and Development has praised HK's efforts to comply with international standards for the exchange of tax information, saying the city is not a tax haven. "HK ... has built its position as an international financial centre on the basis of free markets, low tax rates and a transparent tax system. Under the OECD criteria, HK, China is not considered as a tax haven," Jeffrey Owens, director of the OECD's Centre for Tax Policy and Administration, wrote in an article.

**Struggling smaller firms still need help, top economist warns:** Influential chambers of commerce and business associations have urged the government to help struggling companies as economic indicators point to a dismal year for doing business. Many in the business community are unhappy over the near absence of any mention of small and medium-sized enterprises in February's budget speech and warned of dire consequences. Such firms account for about 98% of companies, employing the bulk of the workforce. "There is a strong need for further measures to revive the HK economy," HK General Chamber of Commerce chief economist David O'Rear said. "HK is too small an economy to be very well affected by spending" on infrastructure and public works projects.

**HKMA says banks are feeling global pressure:** HK's de facto central bank issued a sober assessment of the city's lenders, saying profits were down, loan quality was deteriorating and the world economy remained bleak, which was expected to further affect the economy. In a submission to the Legislative Council's panel on financial affairs, the HK Monetary Authority said profitability at retail banks continued to be under pressure in the first quarter.

**GDP fall is bigger than feared; outlook worsens:** HK's economy shrank a worse-than-expected 7.8% year on year in the first quarter. It was the biggest contraction since the Asian financial crisis 11 years ago and three times as bad as the previous quarter's drop. Economists' average forecast was for a contraction of 5.2%. The quarter-on-quarter contraction was 4.3%, the worst since at least 1990. Goods exports fell the most since 1954, plunging 22.7% year on year. Services exports fell 8.2%. Fixed-asset investment was 12.6% lower than a year earlier.

**Jobless rate hits 41-month high, but rise slows:** HK's jobless rate has risen to 5.3%, the highest level in 41 months, but the increase was the mildest since the financial slowdown began in September. "But the 0.1 increase is relatively mild when compared with the increase in the past two months," Labour secretary Matthew Cheung said, adding it was also the mildest since the financial tsunami began in September last year.

**HK\$16.8b in giveaways rolled out:** Financial Secretary John Tsang rolled out a HK\$16.8 billion "please-all" relief package, including increasing salaries tax concessions and raising the government's loan guarantee for needy companies, in an attempt to help the public and enterprises ride out the economic downturn. The handouts are the fourth in 15 months, taking the total handed out since February last year to HK\$87.6 billion. This is roughly 5.2% of gross domestic product, which is more than double the average for stimulus packages in leading developed economies.

**EU explores exchange of tax information:** The European Union is exploring how to get access to information about bank accounts its residents hold in HK as the city moves towards legislation that will help it comply with international tax governance standards. The government is working on a bill that would allow the Inland Revenue Department to send information on individuals suspected of evading taxes to authorities overseas. This would allow HK to incorporate the OECD standard on exchanges of information in its double-taxation treaties. HK was the first major financial hub in the region to make such a move. The city has already signed double-taxation treaties with the mainland, Thailand, Belgium, Luxembourg and Vietnam.

**HK export slowdown eases:** HK exports declined by 18.2% year-on-year in April following a 21.1% slide in March on improved trade with China, as economists said the worst impact of the recession had already been felt. Total exports were HK\$199 billion last month compared to HK\$243.4 billion a year earlier.

**Deflation a danger this year, says finance chief:** Financial Secretary John Tsang has warned of possible deflation in the city by the end of the year, which could cause more serious problems than marginal inflation. And, despite the HK\$16.8 billion relief package he announced, Mr Tsang said he did not rule out the possibility that more such measures might be necessary.

## Domestic politics

**Big turnout expected for July 1 democracy rally:** The economic slowdown and a widening wealth gap in HK will push turnout in the annual July 1 march for democracy to a new high for Donald Tsang's tenure, organisers of the event predict. Legislator Lee Cheuk-yan, general secretary of the Confederation of Trade Unions, made the prediction as the Civil Human Rights Front announced details. "We are not making use of the bad economy to mobilise people, but people will see that the culprit for the economic problems is an undemocratic government. When there is democracy, grass-roots citizens' lives will be better," Jackie Hung, of the front's rights committee, said.

**June 4 is history, I speak for HK, says Tsang - then has to apologise:** Donald Tsang was forced to apologise after claiming to speak for "HK people" in expressing hopes for an "objective assessment" of the Tiananmen Square crackdown in light of China's economic development. The chief executive's remarks in the Legislative Council, three weeks before the 20th anniversary of the bloody crackdown on the 1989 pro-democracy movement, sparked a walkout by pan-democrats, who accused him of burying his conscience. "I understand HK people's feelings about June 4, but the incident happened many years ago. The country's development in many areas has since achieved tremendous results and brought economic prosperity to HK. I believe HK people will make an objective assessment of the nation's development."

**Head-hunting team picks Norman Chan for HKMA:** A high-powered head-hunting team has picked Chief Executive's Office director Norman Chan to succeed Monetary Authority chief Joseph Yam. A well-placed source said the three-member team, set up at the end of last year to identify a successor to Mr Yam - who retires on October 1 - had recommended a candidate to Financial Secretary John Tsang. The source said some procedures had to be finalised before an announcement could be made.

**Tiananmen crackdown remains hot-button issue in HK:** Politics has always aroused less interest among the general population in HK than the economy. The exception is the Tiananmen Square crackdown - remembered every year with tens of thousands of candles that illuminate Victoria Park in an expression of unfulfilled dreams. This is because the Tiananmen ideals of democracy, freedom and a corruption-free China are core values shared by Hongkongers. Chief Executive Donald Tsang found that out to his cost this month in the Legislative Council when he asked people to forget their painful memories and focus on China's economic gains. Twenty years after People's Liberation Army tanks crushed students and workers in Beijing on June 4, 1989, the Tiananmen issue can make or break politicians in HK.

## Relations HK - Mainland China

**Cepa to relax visa rules for mainlanders:** Mainland tourists planning to visit Taiwan and HK will be able to travel to the two destinations with a single permit in new measures under the free-trade pact between HK and the mainland. HK's tourism industry is one of the biggest winners in the latest phase of the Closer Economic Partnership Arrangement that will also benefit shipping firms and the financial services sector.

**Legislators want to set up regular communication channel:** Lawmakers said they wanted to create a regular communication channel with mainland officials, as they completed a four-day visit to examine environmental protection and economic developments in Guangdong. While Legislative Council president Jasper Tsang, who led the 25-member delegation, said overall arrangements for the trip were satisfactory, pan-democrats criticised the provincial government for not listening to their political views. Mr Tsang said no provincial official had agreed to build a regular liaison mechanism with Legco. He believed it would take some time before arrangements could be set up. "The relationship between HK's legislature and mainland government departments under 'one country, two systems' is still a new issue. I think it is very much worth exploring," he said.

**Liaison office gets new director:** Peng Qinghua, who took up the post of deputy director of the central government's liaison office in HK after 500,000 people protested against the national security legislation in 2003, has been appointed as Beijing's new top man in the city. Xinhua reported that the State Council had appointed Dr Peng to succeed Gao Siren, 65, as director of the liaison office.

## International affairs

**Safety urged in ship recycling:** The International Maritime Organization is scrambling to pass a legally binding covenant on ship recycling before an expected surge in decommissioned vessels driven by the financial crisis. About 500 delegates from 100 nations are attending a five-day conference at the HK Convention and Exhibition Centre in an attempt to hammer out details on worker and environmental safety during shipbreaking and recycling activities.

## Transborder affairs

**Shenzhen travel scheme put on hold:** Stating security reasons, the central government has put on hold an individual travel scheme for Shenzhen non-permanent residents to HK. At the end of last year, Beijing announced that such non-Guangdong residents could apply in Shenzhen for permits to visit HK. The move was seen as an attempt to help boost the flagging HK economy. The whole thing was called off at the end of last month, meaning affected residents now have to return to their home provinces to apply for visit permits. Shenzhen

municipal government executive vice-mayor Li Feng said the central government is worried the measures will put pressure on HK security.

**Think-tank set to reveal delta plans:** A think-tank will come up with proposals on further integration between HK and Guangdong, such as making it easier for Shenzhen residents to make trips to HK. The Greater Pearl River Delta Business Council will submit the proposals in a report to the HK government and Guangdong authorities by July. The council will explore co-operation on livelihood issues and economic development. It will focus on measures to remove constraints to the cross-border flow of people, capital and goods. There was a pressing need for a community-wide debate on how to capitalise on the opportunities arising from the planning guidelines for the Pearl River Delta's reform and development, council chairman Victor Fung said.

**Beijing wants Shenzhen to work in concert with HK, not rival it:** Beijing's new road map for Shenzhen envisages the special economic zone playing a complementary role to HK, not competing with it as a financial centre. The central government said Shenzhen would "take a complementary role with regards to HK, and seek to develop into a global centre for trade, logistics, innovation and cultural industries".

### Legal affairs and human rights

**HK press drops to 'partly free' in report:** Erosion of press freedom last year in HK has reduced the city to a "partly free" status from its previous "free" category, according to a US press freedom report. The Freedom of the Press Report released by Freedom House - a social concern group in the United States - said the city's change in status reflected the growing influence of Beijing over media and free expression.

**Tiananmen dissidents denied HK visas:** Three US-based dissidents involved in 1989 pro-democracy protests in Beijing's Tiananmen Square have been denied visas to attend a HK conference about the military crackdown on the demonstrations. The Tiananmen crackdown, which killed hundreds of people, remains a taboo in the mainland, where the government still considers the student protests a "counter-revolutionary" riot. Beijing has never given a full accounting of the military action. Wang Dan and Wang Juntao were denied visas when they applied at Chinese consular offices. A third, Yang Jianli, was denied entry when he arrived at the HK airport three weeks ago.

**Amnesty hits out at HK rights record:** The human rights situation in HK was far from satisfactory last year, with asylum seekers deported and activists denied entry, Amnesty International said in its annual report. The 405-page report devotes half a page to HK, while the mainland merits three pages (...). "Dozens of activists, Tibetan Buddhist monks, and Falun Gong practitioners were denied entry to HK before the Olympic torch relay in May and before and during the Olympics," the report says. "Government restrictions on protests at equestrian venues limited freedom of expression and assembly."

### Health

**Closure of schools to be first line of HK defence:** Nurseries, kindergartens and primary schools would be closed for two weeks if a local swine flu case emerged in HK, the health minister said as the government reviewed its policy to fight the virus. International statistics showed that most swine flu infections occurred between students, and children were therefore more prone to catch the disease, health chiefs said. The government aimed to contain the disease for as long as possible, but was also prepared for mitigation should it spread, Secretary for Food and Health York Chow said.

**Grim flu scenario sees 42,000 sick:** Health chiefs have outlined a worst-case scenario for HK in which 42,000 people fall ill with human swine flu (H1N1) and need immediate hospitalization. Hospital Authority director Leung Pak-yin based the bleak picture on the World Health Organization's estimate that if there is an outbreak of swine flu, up to 30% of those living in the area could be affected. With HK's population of about seven million, that would mean 2.1 million people affected. Of these, about 2% would need hospitalization, Leung told a special meeting of the Legislative Council's health services panel.

### Culture and education

**HKU named best university in Asia:** The University of HK (HKU) has been named the best in Asia in the first regional ranking by a company that regularly rates the world's tertiary institutions. Chinese University and the University of Science and Technology, were ranked second and fourth on the ladder, sandwiching the University of Tokyo on the list produced by Quacquarelli Symonds. The company compiles The Times Higher Education World University Rankings, which last year rated HKU 26<sup>th</sup>, or third if only Asian institutions were counted, behind Tokyo and Kyoto universities.

**Education chief denies playing down June 4:** The education minister has denied playing down the June 4 crackdown in textbooks, saying it is impossible to include every event in detail throughout 5,000 years of Chinese history. Michael Suen was grilled by pan-democrats at the Legislative Council yesterday on the lack of structured teaching on the 1989 pro-democracy movement on the mainland. He said there was no political motivation behind the current curriculum.

**Parents celebrate relocation victory:** Parents of pupils at a leading international school have won a battle against having their children temporarily moved from The Peak to Ma On Shan. The German Swiss International School (GSIS) said that the 300 upper primary students - displaced by planned renovations - would instead be moved to a disused school building in Wan Chai.

**Grants chief wants more non-locals in universities:** Despite the preponderance of non-local students doing postgraduate research at HK's universities, the man in charge of allocating the universities' resources thinks they are still not international enough. "Not only should we have more students from different countries, we should have more professors from different parts of the world and have research collaboration with the good institutions around the world," said Michael Stone, secretary general of the University Grants Committee.

### Macau

**200 protesters join Macau rally:** More than 200 Macau residents took to the streets on Labour Day, protesting against "businesspeople ruling Macau" and demanding that Chief Executive Edmund Ho clarify if he had any role in a graft scandal. They also called for a union law to protect labour rights, and for tougher measures against the hiring of illegal workers. Analysts had predicted a small turnout, pointing to a timely cash giveaway by the government and a crackdown on illegal workers. Last month, Mr Ho announced a cash-sharing scheme, with 6,000 patacas for each permanent resident and 3,600 patacas for non-permanent residents. Hundreds of illegal workers and subcontractors from the mainland and HK have been detained in the past few weeks.

**Macau casino revenue drops to 8.3b patacas:** Macau casino revenue was 8.3 billion patacas last month, down 8.97% from a year ago and 12.63% cent from March, according to preliminary data. The unofficial figure from Portuguese news agency Lusa marks the fifth consecutive month of falling casino revenues in Macau. Business has been impacted by a credit crunch among VIP junket agents and Beijing's year-long curb on mainlanders travelling to the city. But some analysts and investors are becoming bullish on Macau casino shares, encouraged by cost-cutting measures and signs that monthly revenue declines may already have troughed in January and February. "We believe that with potential positive earnings surprises and possibly some supporting policies from the Chinese government, the worst may be over for the Macau gaming sector," Credit Suisse analyst Gabriel Chan wrote last month in a research report.

**Macau sets date for leadership poll:** Macau will elect its next chief executive on July 26. The nomination period will run from June 12 to 23. A candidate will have to secure at least 50 nominations from the 300-member Election Committee, meaning the number of contenders will be capped at six. Campaign spending for each contender would be limited to about 8.94 million patacas, the official gazette of the special administrative region said. Candidates will be allowed to campaign between July 11 and 24.

**First runner enters Macau top job race:** Macau's Secretary for Social Affairs and Culture Fernando Chui has declared his candidacy for the July 26 chief executive election. Chui, 52, has submitted his resignation in line with election rules. He has told Chief Executive Edmund Ho of his decision and is awaiting central government approval. He will begin his election campaign once his resignation is approved.

**Sands to cut up to 4,000 jobs in Macau and HK:** Las Vegas Sands plans to slash the equivalent of 3,000 to 4,000 more full-time jobs in Macau and HK by September, executives say. The owner of the Venetian and Sands casinos in Macau aimed to cut payroll via a combination of layoffs, pay cuts, attrition and transfers of staff to the company's soon-to-open Singapore resort, Asia-region president Stephen Weaver said.

### Varia

**New Catholic bishop calls for unified society for common good of HK:** Bishop John Tong Hon called for unity among Catholics and others in society to work for the common good, when he was formally installed as the new head of the HK Catholic Diocese. Led to assume his episcopal seat in the Catholic Cathedral in Caine Road by his predecessor, Cardinal Joseph Zen, the 69-year-old also vowed to continue the diocese's role as a "bridge" to mainland Catholics and to work for religious freedom.

**Visitor arrivals drop 9pc amid flu scare:** The city has seen a 9% fall in visitors this month because of the swine flu scare, according to Tourism Board chairman James Tien. Mr Tien said that HK received more than 9 million visitors in the past four months, a 1.4% increase on the same period last year. "But the total number of tourists dropped 9% in the first 10 days of May. The number of mainland visitors also dropped 8% at the same time."

**Civil servants may face pay cut:** HK's 160,000 civil servants could face their first pay cut since 2005 after a government survey suggests they may have to follow the private sector to cut wages by between 0.96% and 5.38%. Civil service unions called for a pay freeze rather than a cut, which they said would affect morale amid the downturn. A Civil Service Bureau spokesman said the survey findings were just one factor to be considered by the chief executive and the Executive Council when they decided whether and how to adjust civil service pay before July.

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