Investing in Hong Kong & China: Tests show markets' strengths

Ronnie Chan

Ronnie Chan is chairman of the Hang Lung Group of Hong Kong. He is also the cofounder and director of the Morningside-Springfield Group, affiliates of which own and manage companies in 18 countries around the world. Mr. Chan sits on the boards of directors of several publicly listed companies, think tanks, and educational institutions, including Motorola, the Asia Society, and the Council on Foreign Relations. He is chairman of the Hong Kong-US Economic Cooperation Committee, a trustee of the Better Hong Kong Foundation, and director of the One Country Two Systems Research Institute. In 1998, he served as co chair of the Davos Annual Meeting of the World Economic Forum. He holds an MBA from the University of Southern California.

Sooner or later every emerging economy faces two tests: first, how healthy are its economic and financial structures, and second, how well do its government and private sectors manage their financial affairs. When judged by these criteria, Hong Kong passes both tests; Mainland China fails the structural test but passes the management test acceptably.

Since 1949, many Hong Kong business people have read the signs correctly and made money. In the spring of 1992, when Deng Xiaoping made a trip to the south, most major players in Hong Kong made the decision that China's reform was basically irreversible. We also concluded that the 1997 turnover would be okay.

In fact, many of us Hong Kong people are very proud that Hong Kong is finally part of the motherland, after having been taken over by the British by gunboat diplomacy. At the 1997 turnover, 40,000 of our citizens were waving the Chinese flag, welcoming the Peoples Liberation Army. There is a pride that is associated with being Chinese.

Important Industry

When we talk about Hong Kong's economy, it is impossible to separate it from the real estate sector. Hong Kong's stock market is said to be 60 percent related to real estate. It is arguably the most important industry in Hong Kong. When the Asian financial crisis hit, the stock market crashed due to its dependence on the real estate sector.

Obviously, Hong Kong has been affected by the crisis; however, since it primarily served the relatively healthy Mainland China, it has fared better at getting back on its feet than the rest of Asia. Sixty percent of the investment in China comes from Hong Kong.

Only if Hong Kong sticks to its transparency and offers a level playing field can it stay competitive and hope to get ahead.

Hong Kong, with its 7.1 million people, is trying to be faster, smarter, and more aggressive than its competition. It is positioning itself to be on the cutting edge of technology. It is establishing brand names to increase its profitability.

Live or die

There are many bright spots on the Chinese horizon. Currently many former students and business people are returning to China, resulting in an influx of significant talent. They are people hot to trot, working 18 hours a day.

However, China's business climate is difficult as the Chinese system is in a perpetual state of change. It is important to take the advice of local people because many top US managers don't think like Chinese.
Investing in Hong Kong & China: Tests show markets' strengths

Ronnie Chan

Once you have enough battle scars, you will do better than before. But you must accept a long term view, a view often painful in the short term.

If you want to start a company in China, you should joint venture with local partners and find competent, local staff.

Against human nature

Will China return to Sun Yatsen's 1921 model?

China is moving in that direction with a bi-party or multi-party system. It is moving toward democracy because that is human nature; communism doesn't work because it is against human nature. China recognizes this, but wants to change in a managed fashion. Currently, 95 percent of China's villages have elections at the local level.

We all need democracy because we don't have a better system. But let's make sure we don't adopt another people's system. We need to move to a responsible democracy, where principles mean something; where doing better, which is right, means some thing; where we are consistent in what we say.

In the short term, development is the top priority of China rather than democracy or human rights. In the long term, China has no choice but to follow in the footsteps of the West, but it should be allowed to move at its own pace. The challenge is how to preserve the best of China's own traditions and integrate them with the strengths of the West.

Confucianism versus the rule of law

How is China dealing with its history of Confucianism and the belief that everyone is a good person?

The rule of law, which China understood previously, lost out to Confucianism 2200 years ago. This rule of law is needed now, but it is taking time to effect a change. Lawyers are not in the Chinese concept. However, China is prepared to abide by the basic requirements of the World Trade Organization, which include operating by the rule of law.

China is gradually accepting arbitration as an internationally accepted practice, realizing that it too can bring others to international adjudication when the need arises.

How do you deal with corruption?

There are two forms of corruption, individual and systemic. For individual corruption, you can add law and then enforce the law. For system corruption, the system makes it legal; therefore, you have to change the system. First you must establish the law, and then you must enforce it, which is the difficult part.