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# Crisis, clear skies and China opportunities



By Jill Wong

**With every crisis comes a silver lining. While not everyone subscribes to that belief, Asian business leaders speaking at this year's Bloomberg Leadership Forum in Hong Kong are certainly convinced of its validity.**

Panelists speaking at the forum entitled “In Today’s Global Uncertainty, What are the Key Challenges and Opportunities for China and Hong Kong?” noted that while business confidence has picked up significantly in the past few months, there remain challenges to be tackled for the momentum of growth to be sustainable.



Vincent Cheng, Asia Pacific chairman of The Hongkong and Shanghai Corporation (HSBC) acknowledges that “things are certainly picking up”, while **Edward King**, head of Asia Pacific Mergers, Acquisitions & Restructuring at Morgan Stanley says, “There are several initial public offerings (IPOs) that are currently on the road out of China. I think mergers & acquisitions (M&A) will follow ... China will increasingly be a driver of M&A activity.”

Both Cheng and King were speakers on the first panel at the forum that also included Tokyo-based Bloomberg columnist **William Pesek** as well as **Mark Konyn**, chief executive officer of RCM Asia Pacific.

On the flip side, recovery hopes have raised issues of complacency in the US, according to Pesek, who says, “What worries me about what’s happening in the US is that there’s this air of complacency all of a sudden and the kind of inertia, the pressure for change in the financial system, has fallen by the wayside.”

Mark Konyn, chief executive officer of RCM Asia Pacific, adds that the first stage of the rally had caught many investors off guard, and they are now scrambling to catch up by allocating more assets to Asia. “Many institutions that we talk to globally are underweight still in this part of the world, so I think the growth momentum will continue.”



One pressing issue is the need for the financial services sector to rebuild its credibility, Konyn stresses. “There’s a saying that the governments have

bailed out the financial institutions that have bankrupt the economies and therefore (there) needs to be some sort of retribution. That, alongside with some of the accusations of mis-selling that we've seen in this region, I think financial institutions have a bit of remedial work to do."

Cheng, however, countered this by saying, "Hong Kong banks are generally very good with their management."

In response to a comment by forum host and Bloomberg anchor **Bernie Lo** that markets never seem to learn from history, Konyn says, "In some ways, it is a virtue isn't it, to be able to put the past behind us and look forward? People make the same mistakes again and again ... The more the recovery goes on, the more people put the past behind them and jump on board."

In his discussion in the second panel at the forum – comprising **Ronnie Chan**, chairman of Hang Lung Properties; **Simon Galpin**, director general of Invest HK; and **Tony Tyler**, chief executive officer of Cathay Pacific; as well as Pesek – Lo brought up the issue of Hong Kong's third place in the "Ease of Doing Business" ranking in the Doing Business 2010 report by The World Bank Group. Singapore came in first, and New Zealand second in the poll.

"Being number three on that index is pretty good," says Galpin, who is responsible for bringing foreign direct investments into Hong Kong.

Business issues aside, another major challenge for Hong Kong has to do with pollution, a problem that could undermine the territory's competitiveness in the long run. "One of the reasons why I don't live here – and why a lot of the folks in Tokyo won't move here – is the environment," Pesek says.

However, Ronnie Chan holds a different view. "The reality is that the air quality in Hong Kong has improved tremendously over the last two years. I have an apartment on the 77th floor that overlooks the whole harbour. In the old days, the number of clear days was hard to find. Nowadays, almost every day is a clear day."

Lo, however, came up with an explanation that drew laughter from the audience. "That's recession, the closing of factories. The silver lining to the recession is that on a clear day, you can see Hong Kong island."



On Hang Lung's business prospects, Chan adds: "I like the profit margin in China the best. It is not as high as in Hong Kong obviously, but we are consistently getting 27 per cent unleveraged cash-on-cash returns by just

renting classé offices and shopping centres. On a leveraged basis, we're getting 47 per cent."

"Is China's current growth rate sustainable?" Lo asked the panelists.

"We're counting on the fact that China will continue to grow and the companies that are coming to Hong Kong are also counting on that," Galpin says.

"Companies are not coming to Hong Kong because of Hong Kong as a market. Most of the companies that we are bringing in are coming because of opportunities in the mainland," he adds.

Chan notes: "China, being a socialist country, is unlikely going to have tax rates anywhere close to where we are, and that will, for a long time, bring people here."

*The Bloomberg Leadership Forum 2009 was held in Hong Kong on September 10.*

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