Opinion

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Hong Kong's budget strives for balance but is not without blind spots

- Financial Secretary Paul Chan's focus on tourism and development projects might be in vain without considerations on how best to utilize Hong Kong's resources
- This year's budget is likely to upset but reflects government's goal of fiscal responsibility

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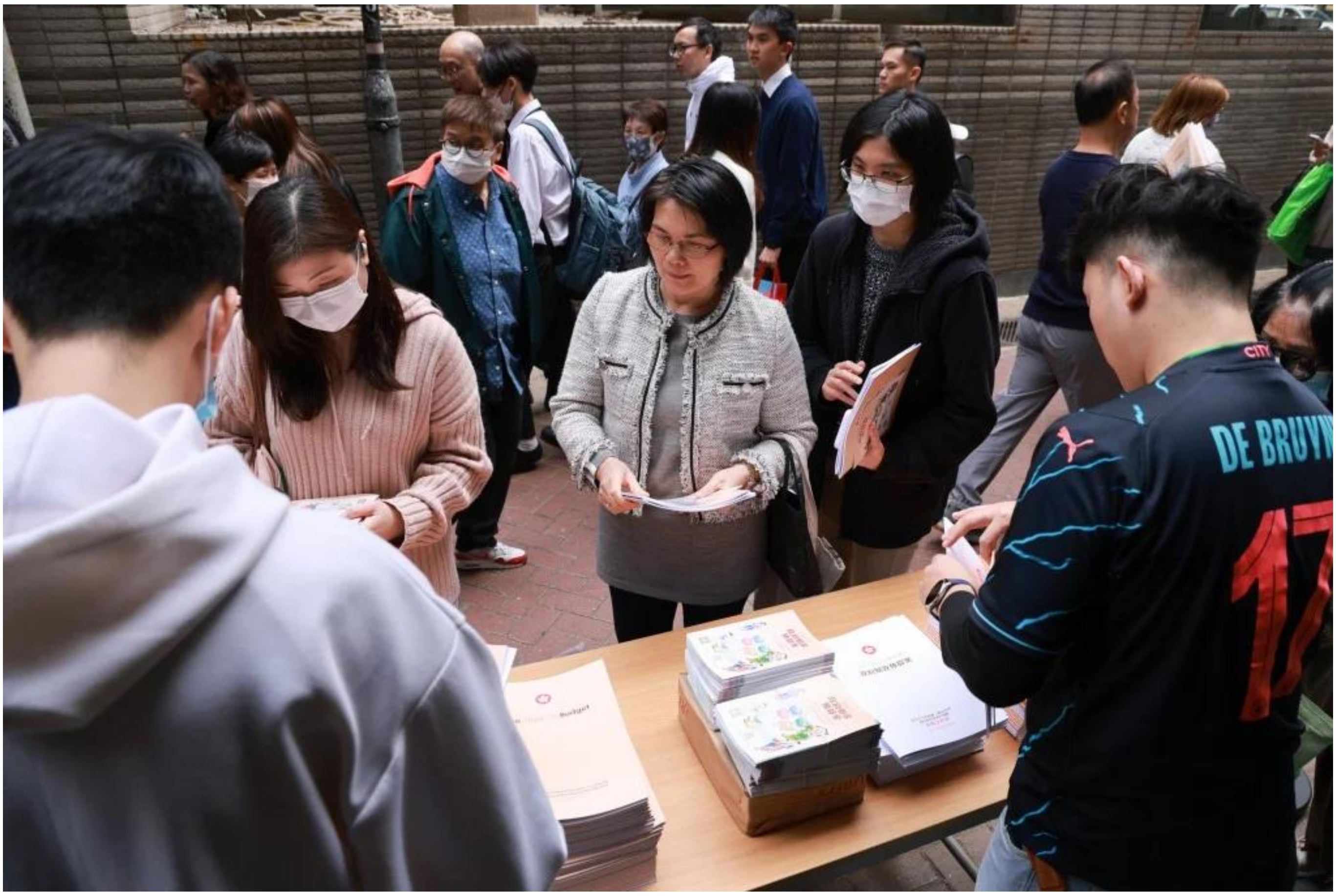
Published: 5:15pm, 3 Mar, 2024



Residents of Hong Kong's Wan Chai district browse copies of the budget speech and other informational leaflets on February 28. Photo: May Tse

It might be easy to forget that Friday, March 1, marked one year since Hong Kong lifted its Covid-19 mask mandate. A year on, Hong Kong's economy continues to wheeze on the path to full recovery. The Hong Kong government faces mounting fiscal deficits and sluggish economic growth, making them the central focus of the latest budget.

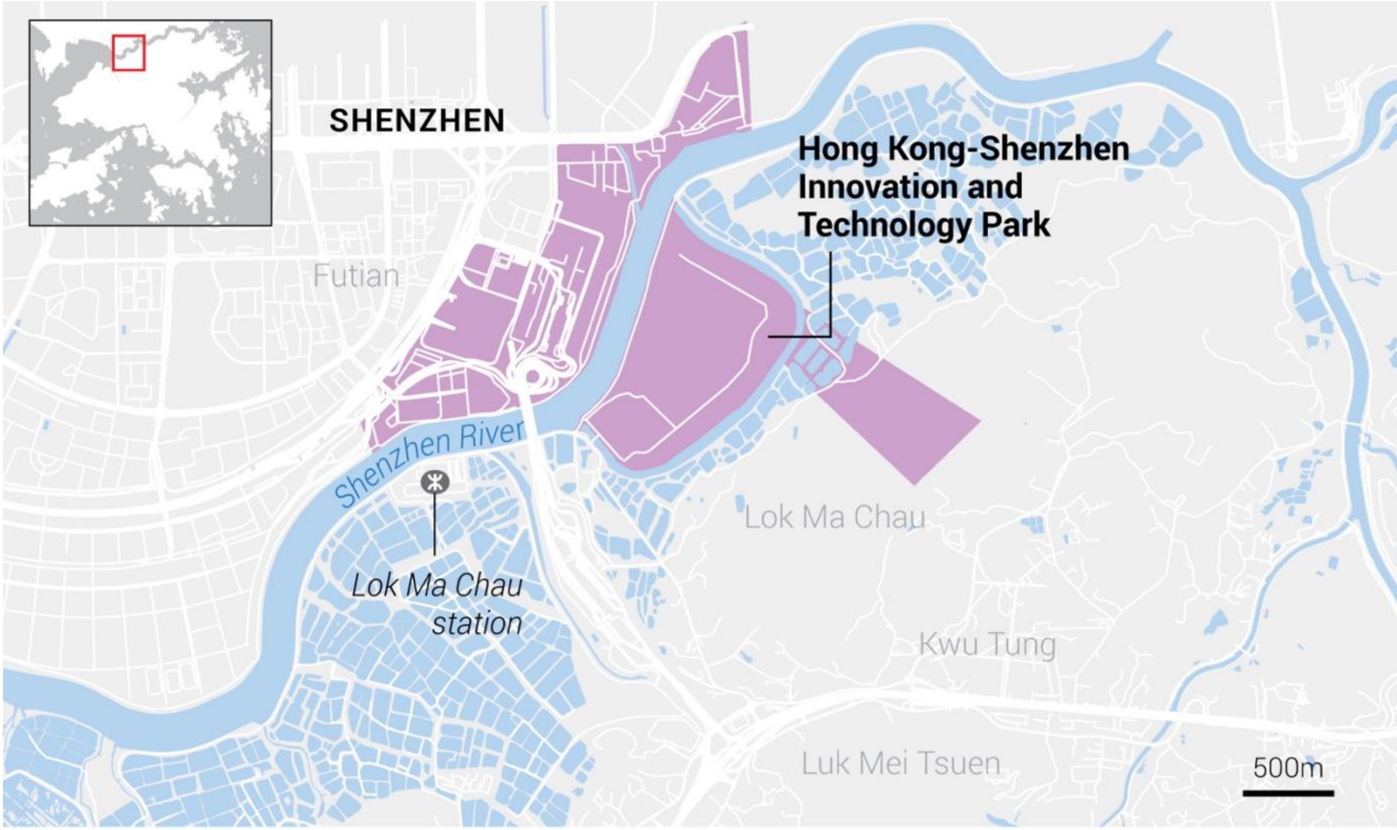
Financial Secretary Paul Chan Mo-po's eighth budget aims to strengthen the stuttering momentum of Hong Kong's economic recovery and promote "high-quality" development, which conserves the natural environment and promises a green future, while restoring fiscal balance through a "fiscal consolidation strategy".

The budget also mentions the government's commitment to transforming Hong Kong into a centre for international innovation and technology, particularly in the context of artificial intelligence (AI), supercomputing and digitalisation.

This part of the budget appears to reveal some blind spots. It does not acknowledge technological trends that would serve Hong Kong well, including autonomous vehicles and the low-altitude economy, a concept that involves civil-manned and unmanned aerial vehicles. The budget also does not recognise how AI can be harnessed to reduce expenditure, increase efficiency and lower the government's civil service headcount.

The Lok Ma Chau Loop and Hetao Shenzhen-Hong Kong Science and Technology Innovation Co-operation Zone are just some examples of Chan's "high-quality" development priorities. However, these priorities ignore environmental concerns surrounding the development of any technological infrastructure in the northern part of New Territories.

The governments should compare potential significant ecological losses from reclaiming border area land and fish ponds relative to the costs and benefits of building tech hubs in mainland China. Any meaningful partnership with the mainland must play to each others' strengths and yield mutual benefits.



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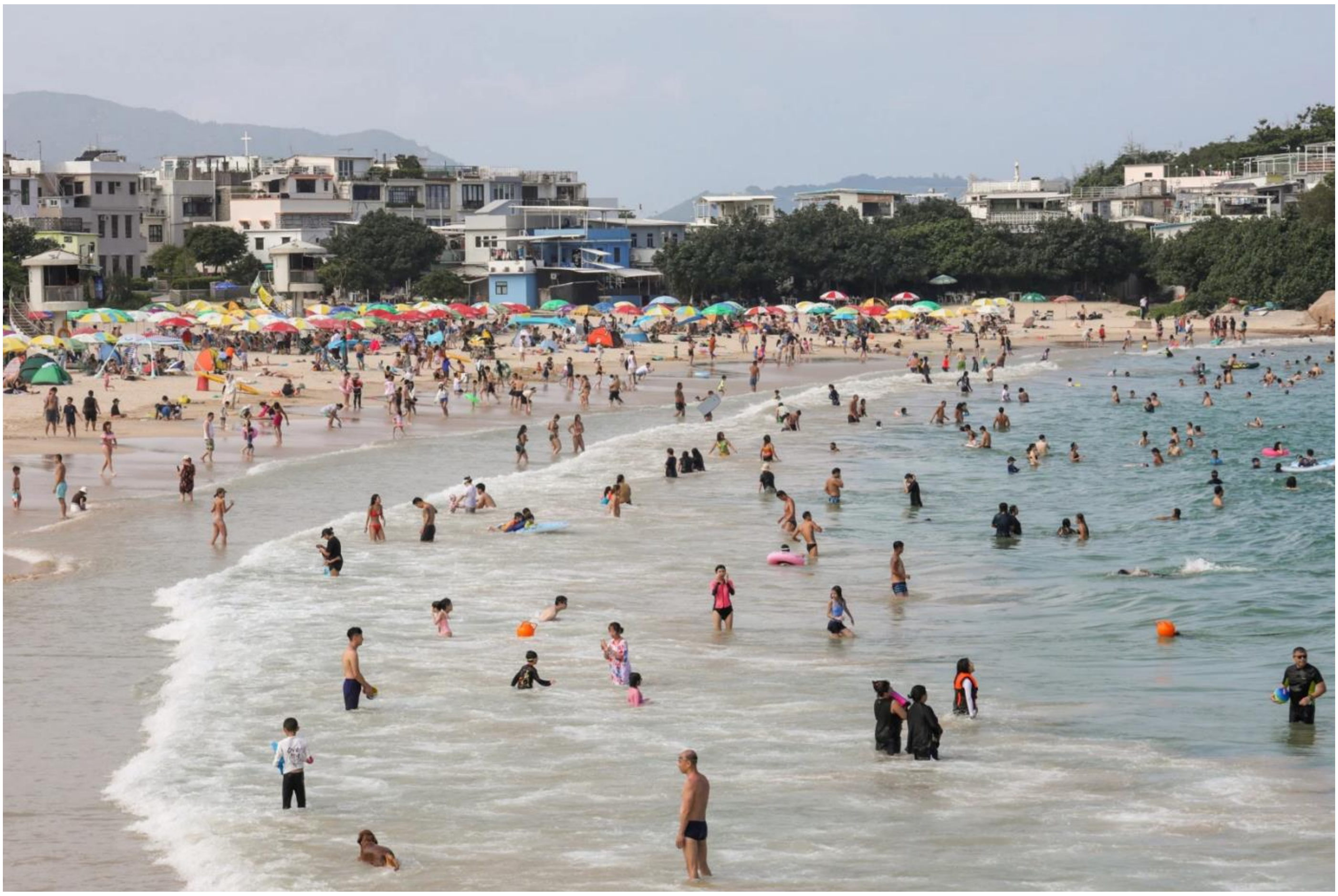
Regarding tourism, Chan touted the city's revamped night markets, dazzling fireworks and monthly drone shows at Victoria Harbour. Chan should know better that tourism is not a numbers game and it never will be. Tourism's contribution to a recovering economy is about quality over quantity and attracting tourists for longer and higher-spending stays.

Hong Kong's stunning hiking trails, beaches, marine riches, terrestrial ecology and its rich cultural heritage are rare and invaluable assets. These landmarks comprise genuine and unique selling points that could be sold to previous long-haul visitors and would provide new reasons for previous visitors from afar to return now that Covid-19 is no longer a global health emergency. They also incidentally would attract much needed businesses and talent to drive Hong Kong's recovery.



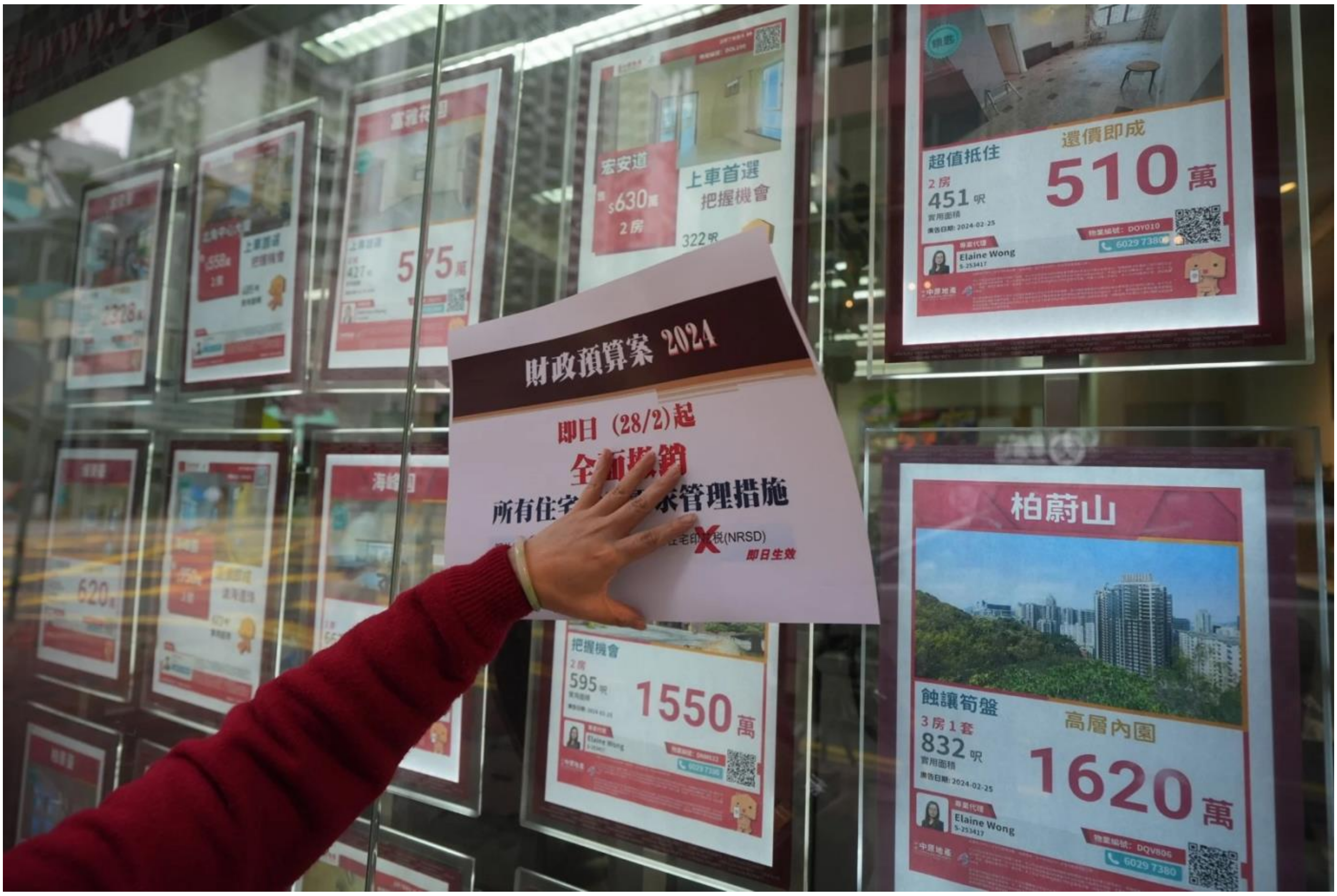
Holidaymakers enjoy Shek O beach on May 28, 2023. Photo: Xiaomei Chen

To temper the fiscal deficit, Chan announced a series of measures and picked certain projects to bring in revenues. To fund and drive the mega strategy of the Northern Metropolis, the government plans to issue bonds of about HK$95 billion (US$12.1 billion) to HK$135 billion per annum in the next five years. Chan is introducing billions of dollars of bonds to fund an estimated average of HK$90 billion for public infrastructure during the same period.

Chan also mentioned that the government will continue to conduct relevant studies of Kau Yi Chau Artificial Islands project and take into account its public finance position in considering its implementation timetable.

In terms of public housing, the city says it expects to have 14 per cent more residential units than are needed, allowing Chan to spare heritage sites that have been slated for development by Carrie Lam Cheng Yuet-ngor's administration.

Compared to previous ones, this year's budget contains precious few "sweeteners" for the public, except the widely expected removal of property cooling measures. Hong Kong's working poor, the elderly and people with disabilities will need to be patient for any meaningful help beyond existing measures.



A property branch in Fortress Hill on February 28 displays a poster stating the removal of property curbs. Photo: Eugene Lee

In terms of taxes, the budget's reductions of salaries and profit taxes have ceilings of merely HK$3,000, making them both meaningless to the public and businesses. While this budget may disappoint some, it signals Chan's emphasis on restoring fiscal balance.

Chan's budget more clearly acknowledges what I see as the administration's concerns about the world economy and headwinds from a global "election year". Accordingly, it prioritises the realignment of the government's financial situation rather than public approval.

Even the first registration tax breaks to encourage electric vehicles purchases in line with the government's ambitious 2050 carbon neutrality goal, has shrivelled by 40 per cent, which might be seen to belie Chan's green credentials. The fruits of this year's "tough love" budget will remain to be seen.

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