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Political Risk Report No.13: Political Aspects of the 2024-2025 Budget

It is easy to forget that Friday, 1 March, marks one year since Hong Kong lifted its mandatory Covid mask ban. A year on, the Hong Kong economy continues to sneeze and wheeze on the path to full recovery, and as a result of the three-year pandemic, the Hong Kong government faces mounting fiscal deficits and sluggish economic growth, making them the central focus of the 2024-25 Budget.

The Financial Secretary, Paul Chan's 8th Budget aimed at strengthening the stuttering momentum of Hong Kong's economic recovery and promoting 'high-quality' development, which conserves the natural environment, and promises a green future, while restoring fiscal balance through a 'fiscal consolidation strategy'.

As with previous Policy and Budget addresses, emphasis was made of the government's commitment to transforming Hong Kong into an International Innovation and Technology Centre by fashionably focusing on areas such as Artificial Intelligence (AI), 'petaflops' and digitalisation. However, this appears to reveal two administrative blind spots. Firstly, in not acknowledging certain latest IT trends that would serve Hong Kong well, including the low altitude economy and autonomous vehicles, and, secondly, not seeing that AI should also be harnessed by government itself to materially reduce government expenditure, drive efficiencies and lower their, hefty, 194,174 person headcount.

The rebadged Lok Ma Chau Loop, and now clumsily named, Hetao Shenzhen-Hong Kong Science and Technology Innovation Co-operation Zone (HSHKSTICZ) is one such of Chan's 'high quality' development focuses. However, this also appears blind to the fact that in developing any technological infrastructure in the north New Territories, be it 'the Loop' or the San Tin Technopole, of which Chan was strangely silent in his Budget, the government should demonstrably justify their green credentials and compare potential significant local and international (namely avifaunal impacts to the East Asian Australasian Flyway) natural environment and ecological losses from reclaiming border area land and fishponds, relative to costs and benefits of building 'the Loop' and Technopole in mainland China, and meaningfully partnering north to play to each other's strengths to reap mutual benefits.

To attract tourists, Paul Chan congratulated government for the storming success of revamped night markets, and 'happy clappy' Tourism Board adverts, and announced holding monthly fireworks and drone shows at the Victoria Harbour. Chan should know better that tourism is not a numbers game and never will be. Tourism's contribution to a recovering economy is all about quality over quantity and attracting more long haul, high-quality tourists for longer and higher spending stays. Hong Kong's stunning Country Parks for hiking, beaches and marine riches and terrestrial ecology, plus its rich cultural heritage, including recently UNESCO-awarded heritage sites, are rare and invaluable ecotourism and heritage tourism assets. These enviable assets comprise genuine and new unique selling points (USPs), that have never been sold to previous long haul visitors and would provide new reasons for previous visitors from afar to return, post Covid. They also incidentally would attract, much needed, businesses and talent to drive Hong Kong's recovery.

To temper the fiscal deficit, Chan announced a series of measures and picks winners to bring in revenues. To fund and drive the mega strategy of the Northern Metropolis, the government plans to issue bonds of about $95 billion to $135 billion per annum in the next five years. Chan also introduces billions of dollars of construction bonds to fund an estimated HK$90 billions of annual public infrastructure spending going forward. Again acutely aware of deficits and funding, Chan mentioned that the government will continue to conduct relevant studies of Kau Yi Chau Artificial Islands project, and take into account various factors including the public finance position, in considering its concrete implementation timetable. This thinly veiled code apparently implies that the government prioritises the Northern Metropolis over the former 'Lantau tomorrow vision' and infers government's waning interest in Carrie Lam's massive, end of the pier, offshore reclamation project. In terms of public housing, excellent progress by Chan's deputy has led to 14% more units than are needed, and will allow Chan to spare higher quality environmental, ecological and heritage sites that were previously slated for development by Lam's administration.

Compared to previous Budgets, this year's Budget contains precious few "sweeteners" for the public, except the widely expected removal of historic spicy property cooling measures. For meaningful measures to assist Hong Kong's working poor, the elderly and people with disability, these cohorts will need to be patient until better times return. In terms of taxes, the Budget's apparent reductions of salaries and profit taxes have ceilings of merely HK$3,000, making both meaningless to the public and businesses, especially SMEs. Whilst likely to lead to disappointment among parties, they signify Chan's, bean counter, commitment to restoring fiscal balance.

Evidently, Chan's Budget more clearly acknowledges the administration's fear of the headwinds of a global 'election year', and geopolitics and accordingly prioritises the realignment of the government's financial situation, rather than seeking widespread public approval. Even the 100% incentivisation to go green and buy an electric vehicle, to assist another government Environment and Ecology 'silo' with its ambitious carbon neutrality by 2050 aim, has shriveled to a 40% subsidy, which might be seen to bely Chan's green credentials.

The fruits of this year's 'tough love' Budget will remain to be seen.

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