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South China Morning Post

Business

Developers’ cosy ties with politics may explain Hong Kong’s biggest woe: widening income gap in the least affordable city on earth

In a series of in-depth articles on the unrest rocking Hong Kong, South China Morning Post goes behind the headlines to look at the underlying issues, current state of affairs, and where it is all heading

In this latest instalment, the Post looks at the cosy ties between Hong Kong’s business elites and politics in the city and in Beijing

Topic | Hong Kong protests

Peggy Sito, Denise Tsang and Lam Ka-sing

Published: 7:15am, 2 Sep, 2019

On a sunny morning in early September 2010, Hong Kong's wealthiest man Li Ka-shing was invited to speak in Shenzhen and was granted an exclusive audience with then Chinese President Hu Jintao.

What was unusual about the episode, held during a commemoration of Shenzhen's 30th anniversary as the special economic zone to spearhead China's economic reforms, was that Li was the sole Hongkonger to be received by China's head of state. He was also the only Hong Kong businessman to speak at Shenzhen's birthday party, sharing the limelight with three hometown captains of industry: BYD's Chairman Wang Chuanfu, China Merchant Holdings' Chairman Fu Yuning and Tencent Holdings' founder Pony Ma Huateng.

The episode, a capstone of Li's corporate career, illustrates his apex position where Hong Kong's business intersects with politics, a status that won him the "Superman" sobriquet for his wheeling-dealing prowess. It also underscores the cosiness between Hong Kong's tycoons and government – both locally and extending to Beijing – a nexus blamed by many of the city's street protesters today as the major cause of their woes: one of the developed world's widest income gaps in the least affordable housing market on earth.

As Hong Kong's unprecedented outbursts of civic unrest enter their 14th week, the link between business and politics – and its implication for the daily lives of the city's 7.5 million residents – is coming under increasing scrutiny, while activists, policymakers and academics alike seek to explain the anger that seethes under one of Asia's most prosperous urban centres.

Chinese President Hu Jintao during an exclusive meeting with Cheung Kong Holdings Limited's chairman Li Ka-shing on September 6, 2010 during the 30th anniversary commemoration of Shenzhen as a special economic zone. Photo: Xinhua

The roots of Hong Kong's entangled ties between business and politics can be traced to the city's colonial history, when hometown business elites were also local community leaders, endorsed and endowed by administrators with influence and leadership roles.

In the city's first post-colonial administration after 1997, businessmen made up eight of the 11 non-official members of Tung Chee-hwa's cabinet. The ratio was little changed at 70 per cent under Tung's successor Donald Tsang Yam-kuen, falling to half during Leung Chun-ying's term from 2012 to 2017.

Chinese President Jiang Zemin (right) during a meeting with the late Henry Fok Ying-tung (left) in Beijing on June 23, 2000. Photo: SCMP

The ties between business and politics extend all the way to Beijing.

When Chinese officials took over Hong Kong from the British colonial government in 1997, they kept wooing the city's biggest *hongs*, banks and conglomerates to show that the 'one country, two systems' formula of a capitalist market economy within China's socialism could work, said Lau Siu-kai, vice-president of The Chinese Association of Hong Kong and Macau Studies, a semi-official think tank.

"Beijing assured them the safety of their investments, and allowed them bigger political influence to stabilise the [environment to increase investors' confidence]," Lau said.

Hong Kong mulls over emergency law to quell protests

30 Aug 2019

The Chinese government saw the need to engage Hong Kong's elites in the country's political process during the 1980s, inviting the first batch of Hongkongers to become delegates to the sixth Chinese People's Political Consultative Conference (CPPCC).

Among the 44 delegates serving from 1983 until 1988 were Hopewell Holdings' founder Gordon Wu Ying-sheung, and the late Henry Fok Ying-tung. Fok was *Forbes*' seventh wealthiest man of Hong Kong when he died in 2006, with businesses that spanned real estate, restaurants, and a stake in Macau's biggest casinos.

Three generations of Fok men sat on the Chinese legislature's advisory body. Fok himself had a seat in the legislature, the National People's Congress, and was a member of the drafting committee for Hong Kong's Basic Law, as the city's mini constitution is known. His eldest son Timothy Fok Tsun-ting was a delegate in the 11th and 12th CPPCC from 2008 to 2018, while eldest grandson Kenneth Fok Kai-kong is a delegate in the current 13th CPPCC that serves from 2018 to 2023.

“Beijing issued strict guidelines about the meeting in recent years, but enforcement began this year,” said CPPCC delegate Christopher Cheung Wah-fung, a lawmaker representing Hong Kong’s financial services industry. “We are required to arrive before meetings start and are not allowed to leave during the proceedings. Any delegate who could not attend has to explain his or her absence. We are expected to attend even the lunches and dinners during the conference period.”

As the ranks of Hongkongers grew over the years in the CPPCC, tripling to 156 in the current term, so did the representation of tycoons and business elites. Ten of the current delegates hail from the city’s wealthiest families on *Forbes’ Hong Kong Richest 2019* list.

Is China using protests to chip away at Hong Kong’s economic freedoms?

31 Aug 2019

There’s Victor Li Tzar-kuoi, the elder of “Superman” Li’s two sons and the chairman of CK Hutchison and CK Asset Holdings. Peter Lee Ka-kit, co-chairman of Henderson Land Development and the elder son of Hong Kong’s second-richest man Lee Shau-kee, is also a delegate. And there’s Raymond Kwok Ping-luen, chairman of the city’s most-capitalised developer Sun Hung Kai Properties (SHKP), the youngest of three brothers with a combined wealth estimated at US$40 billion in 2017.

To be sure, tycoons are not exactly the class enemy in China’s legislature, which has 104 dollar billionaires sitting in the 2019 legislature according to *Hurun Report*, with their combined wealth estimated at 3.4 trillion yuan (US$504 billion). By comparison, the 50 richest members of the US Congress were worth a combined US$2 billion in 2016.

Victor Li Tzar-kuoi, then the deputy chairman of Cheung Kong (Holdings) Limited and Peter Lee Ka-kit, vice-chairman of Henderson Land Development, at a meeting of the Chinese People's Political Consultative Conference (CPPCC) in Beijing on 3 March 2013. Photo: Simon Song.

A consequence of the growing influence of billionaires is the widening income gap in Hong Kong and a further concentration of wealth in the hands of the few, said Lau.

The fortunes of Hong Kong’s 75 wealthiest billionaires – estimated at US$224 billion in 2013 – made up nearly 82 per cent of the city’s gross domestic product, according to Wealth-X’s Billionaire Census. By last year, the tycoon class had ballooned to 93 with US$315 billion in assets, or 86.6 per cent of the city’s GDP, the census showed.

The remainder of Hong Kong’s population became poorer, with a record 1.37 million residents living below the poverty line last year, eking out a living on as little as HK$4,000 (US$510) a month, according to government data.

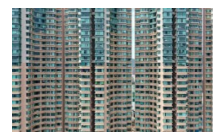
The growing ranks of billionaires in Hong Kong’s CPPCC delegation underscore their outsize influence in the city’s economy.

Nearly 45 per cent of all residential property sold in Hong Kong are built by the city's five biggest developers: CK Assets of the Li family, SHKP of the Kwoks, Henderson Land of the Lee family, New World Development of the Chengs and Sino Land of the Ng family.

Three of Hong Kong's four mobile phone network operators are also subsidiaries of the developers: Hutchison Telecommunications is a unit of CK Hutchison, chaired by Victor Li, while Hong Kong Telecommunications (HKT) is a unit of PCCW, chaired by his younger brother Richard Li Tzar-kai. SmarTone Mobile Communications is owned by SHKP.

Prices of lived-in homes drop for second month amid protests, trade war

30 Aug 2019



The concentration of wealth and political power has not gone unnoticed, or been without controversies, deepening the schism between the haves and the have-nots in Hong Kong.

They include the HK$13 billion Cyberport project initiated by Hong Kong's first Chief Executive Tung Chee-hwa, conceived in the wake of the 1997 Asian Financial Crisis to develop information and communications technology in Hong Kong.

Built on 26 hectares of land in Pok Fu Lam on the south side of Hong Kong Island, the project comprised four office towers and a five-star hotel that took up two-thirds of the land area, while the remaining one third yielded 4.39 million square feet of oceanfront residential real estate.

The entire project was awarded in 1999 to Richard Li's Pacific Century Group without an open tender.

Another controversy was the 40-hectare West Kowloon Cultural District that was awarded in 2005 to a single developer out of three competing bids. Even though the HK$40 billion project was conceived after a 1996 tourism survey that lamented Hong Kong's dearth of cultural venues, it was criticised as a real estate development in disguise.

Smaller, cash-poor developers were particularly unhappy at being shut out by the hefty price tag, with casino tycoon Stanley Ho's family-controlled Shun Tak Holdings openly criticising the single-developer approach. Ho was president of the Real Estate Developer's Association (Reda), the powerful lobby group of the city's developers.

Hong Kong's government, which earns about 30 per cent of its annual fiscal revenue from selling land, tightened supply during the administration of Donald Tsang, the city's second Chief Executive, who took over after his predecessor Tung resigned in 2005.

The career civil servant – he coined the phrase "caring capitalism" while he was the city's Financial Secretary in 1996 – suspended the construction and sale of Home Ownership Scheme flats to arrest an unprecedented decline in real estate prices, and replaced land auctions with a closed tender system.

Donald Tsang Yam-kuen leaves the Court of Final Appeal in Central after his final appeal on 14 May 2019. The former Chief Executive, who was found guilty in 2017 of misconduct, had his conviction quashed on June 26, 2019. Photo: SCMP/Winson Wong

The result of the policies was a 57 per cent plunge in the city's annual housing supply from 59,800 units in 2006 to 25,700 homes by 2016, comprising private, subsidised and public rental apartments. The shortage caused home prices to soar over a decade, laying the ground for a property bull run that continued until the end of 2018.

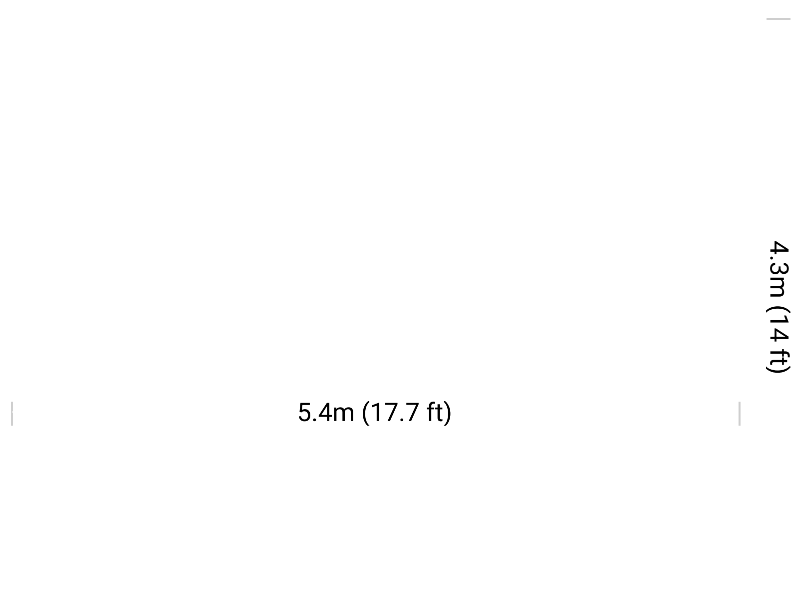
As home prices soared, affordability went out the window for many first-home buyers, so developers began building ever-smaller abodes – they require smaller down payments – for young families.

At the depth of the 1998 Asian Financial Crisis, HK$3 million (US$382,400) fetched a flat measuring 686 square feet (64 square metres) on average, according to Midland Realty. Two decades later in 2018, the living space had shrank to 200 sq ft for the same price, while rents have soared 200 per cent.

The smallest flat currently available for sale in Hong Kong costs HK$1.73 million for 128 sq ft, smaller than a standard car parking space or a prison cell, while the smallest flat for lease measures 61 sq ft, for HK$10,000 per month.

Try living in a micro flat

Hong Kong's micro flats are whole apartments in the space of a master bedroom in other cities.



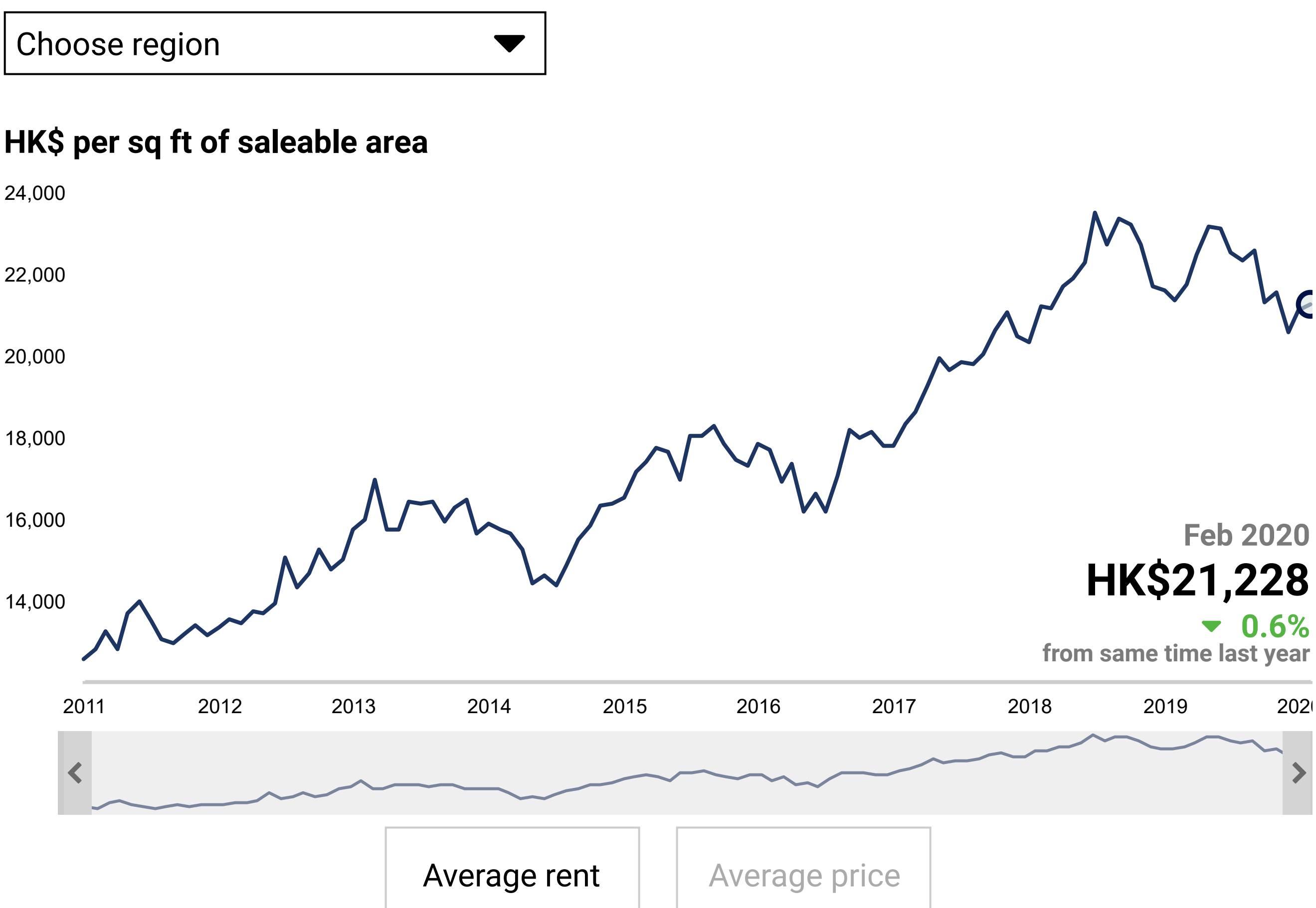
Dismal living conditions and a yawning income gap have led to a groundswell of simmering anger, akin to a tinderbox awaiting a spark.

What began on June 9 as a peaceful march by an estimated 1 million people to protest against a controversial extradition bill has since deteriorated into 12 weeks of frequent clashes between police and protesters.

Many of Hong Kong's street protesters may have been driven by "poor living conditions" amid the city's "excessive wealth concentration," said the former CPPCC delegate and Hopewell founder Wu. "People ask why our incomes go to the government and the people who own land," said Wu, the 43rd-richest man in Hong Kong, according to *Forbes*.

The concentration of wealth and influence is also creating an uneven playing field for Hong Kong's mid-size developers, forcing them to look elsewhere for growth as they are squeezed out by cash-rich rivals.

Hong Kong property prices



Source: Midland Realty

"Hong Kong land is too expensive," said Chris Hoong, managing director of Far East Consortium, a minnow with HK$8.4 billion in value, a 10th of the average capitalisation among Hong Kong's bigger publicly traded developers.

For small businesses, and even large professional firms and luxury retailers, high rents put the squeeze on earnings, making landlords and developers the ultimate winners, said Joe Chau Kwok-ming, president of 3,200-member Hong Kong General Chamber of Small & Medium Business.

Expensive housing costs also spill over into higher salaries for the workforce. Rents make up a third of the total costs of Hong Kong's small enterprises, which account for 98 per cent of the city's commercial life, while wages make up another one third, Chau said.

The cosiness between Hong Kong's business elites and Chinese politics has shifted subtly since Xi Jinping ascended to China's highest office in 2012.

Former presidents Hu and Jiang Zemin – and also former vice-president Zeng Qinghong – used CK Asset's Harbour Grand Hotel in Hung Hom as their temporary residence during their Hong Kong visits. Li and his sons would join Jiang for breakfast.

Those private meetings have ceased since Xi came to power. China's leaders nowadays were holding fewer meetings with Hong Kong tycoons when they visited the city to avoid potential criticism that they were focusing only on rich people, analysts said.

Sino Land chairman urges end to protests hurting city's economy

30 Aug 2019

Not long after a 2015 military parade in Beijing to mark the 70th anniversary of the end of the second world war - attended by Li's two sons but not the elder Li - the family undertook a sweeping reorganisation of its business empire to pave the way for the patriarch's retirement three years later.

The family diversified its sprawling businesses, which touch virtually every aspect of a Hongkonger's daily life from CK Asset's property to two of the city's four mobile phone networks to shopping at AS Watsons retail shops or Park'N'Shop supermarkets, and oil and imported containers handled by CK Hutchison's ports.

Europe now contributes 55 per cent to CK Hutchison's first-half earnings, while Hong Kong makes up a mere 3 per cent, and mainland China accounts for 10 per cent.

Change had also been afoot in Hong Kong. The incumbent Chief Executive Carrie Lam Cheng Yuet-ngor, who unleashed the worst political crisis in Hong Kong's history with her controversial extradition bill, appointed the fewest businessmen to her cabinet in two decades, with just seven of 16 non-official members, or 43 per cent, from the corporate sector.

Still, the question amid all the unprecedented public unrest is how Beijing or the city government can ease the tension, bridge the social divide and narrow wealth disparity when conflicts had been deepened.

"Have you seen any proposal by any of the tycoons [on the CPPCC delegation] to eliminate the conflicts between Hong Kong and mainland China?" asked Chung Kim-wah, an assistant professor at the Hong Kong Polytechnic University's Department of Applied Social Sciences. "Have you seen them speak out before the issues got any worse?"