

HK is a money laundering machine

Written by Paul Lin 林

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According to Chinese media reports, last year a total of nearly 1 trillion yuan (US\$146.78 billion) mysteriously disappeared from China after it was remitted into Hong Kong without first being converted into yuan deposits, and instead directly converted into US dollars and Hong Kong dollars. What is the truth behind these transfers?

The international financial crisis of 2008 hit Chinese exports badly. In the second half of that year, the value of China's exports dropped sharply and then-Chinese premier Wen Jiabao (温家宝) launched a 4 trillion yuan emergency plan, consisting of 10 measures to expand domestic demand.

The most important of these was investment in infrastructure construction, which became the center of a 1 trillion yuan corruption scandal involving former Chinese minister of railways Liu Zhijun (刘志军).

Given that an amount equivalent to a quarter of this major investment flowed into Hong Kong within the space of a single year and disappeared, and was partly converted into Hong Kong dollars, one wonders what exactly people could invest that money in within the territory in order to launder it.

The answer goes some way to explaining why property prices in Hong Kong have continued to rise.

According to statistics published last year in the Chinese-language Hong Kong daily Ming Pao, seven major Hong Kong-based property developers — including Cheung Kong Property Holdings — were responsible for 16.2 percent of the total investment in land, small and medium-sized developers for 35 percent and Chinese-owned developers for nearly 49 percent.

Despite this, the average price per square meter of floor space paid for by the Chinese investors was more than double the amount for the properties invested in by Hong Kong-owned developers. Although it is difficult to make a direct correlation between land and floor space, this does show that Chinese-owned businesses have been trying to buy land irrespective of the cost to develop and sell property.

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Hong Kong-based businesses view the forces of demand and supply and price swings in the property market from the viewpoint of ordinary businesspeople, but Chinese-owned businesses are aware of the large amount of money coming into Hong Kong from China to be laundered.

There is little information about the small and medium-sized developers, but it is very likely that some of them hail from the first generation of corrupt Chinese officials, who immigrated to Hong Kong 30 years ago and now have Hong Kong identities. The capital network of local Chinese nouveau riche and corrupt officials might also be involved.

The situation is very similar in the financial and stock markets. It is considered better to keep wealth within the family, so Chinese-owned banks in Hong Kong are preferred, making them major channels for money laundering.

In 2009, Charles Li (李國章), a former journalist at Beijing's state-owned China Daily, was appointed Hong Kong Exchanges and Clearing chief executive officer. Since then, a large number of "bad" Chinese stocks have listed on the Hong Kong stock market; Chinese-owned companies now make up 63.7 percent of the total stock market value and three-quarters of the total turnover volume in Hong Kong. Stocks of Chinese-owned companies are often the subject of scandals. Such companies have taken a lot of funds out of Hong Kong.

The problem young Hong Kongers face is not only that they cannot afford to buy housing. Due to different recruitment standards, after the Chinese enterprises squeezed out Hong Kong's local enterprises, they started to also exclude Hong Kong employees.

Therefore, it will become increasingly difficult for young Hong Kongers to find jobs in the territory.

Regardless of the suppression of Hong Kong's local and independence movements, if these social contradictions cannot be resolved, or if they intensify, more and more people would identify themselves with these movements and they would one day increase in size and power.

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If that happens, the Chinese Communist Party would have its work cut out for it.

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