

DANIEL A. OGDEN  
ALISON PECK

April 23, 2010

## **The Importance of Hong Kong**

*Our financial window into China*

Hong Kong will be the anchor position for our investments in Asia for a very long time. If I had any doubts about that they ended during my meeting today with GaveKal the research group we engaged last year.

I met with the head of research Pierre Gave and two analysts, Joyce Poon and Daniel Fields. It was a lively two hours. Here are the highlights:

- The British rule of law overcame the Chinese cultural bias in Hong Kong. Unlike the mainland, contracts mean something and respect for the law is high.
- GaveKal underestimated China's growth in 2010, but now believes the government is low-balling its numbers. That would suggest low to mid-teens growth, about double what their analysts predicted last fall.
- Taxes remain low in China---there are no property taxes and most people ignore the income tax. There's no pressure from Beijing to change this. If people were paying taxes they would want a say in government, something the leadership would like to put off.
- There is no real estate bubble in China. GaveKal's answer here is simple---you can't have a bubble without leverage. (More on real estate in the next email)

We've not seen or heard anything here to shake our bullishness on Asia in general and China in particular. I'll be attending a GaveKal client conference next week where I hope to learn more.

Now, a couple of pictures showing the two sides of the city. Here's the gleaming waterfront...

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and then two blocks inland you find this:



and this:



About 40 years ago New York City outlawed signs that hang out over the sidewalk. In Hong Kong the signs don't just hang over the sidewalk---they span the streets and overlap each other. It's an example of the excesses you find here.

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It's an exciting city, but completely lacking in any kind of charm or history. Unlike Shanghai, which seems to pride itself on some level of preservation, Hong Kong has knocked down just about all its past and continues to extend its footprint out into the harbor.

But the people seem the same in both cities: friendly and curious about Americans.

Best regards,



Daniel A. Ogden

[dogden@dockstreet.net](mailto:dogden@dockstreet.net)

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