

OPTIMISTS AND PESSIMISTS: A DEBATE  
OVER THE ECONOMIC FUTURE OF HONG KONG

BY

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Dedicated to my parents,  
my sister and my brother

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Anny Wong

Sydney, Australia

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**ABOUT THE AUTHOR -- Anny Hun Kuen WONG**

Born and grew up in Hong Kong, I went to the States to complete my high school in Springfield, Massachusetts. I came from an undergraduate background in medical technology/laboratory science. A choice was made in 1988 when I decided to abandon my "medical" career to study social sciences and to take up a teaching assistantship in Physics. As part of my fieldwork for the degree, I worked for the World Affairs Council of Western Massachusetts, Inc., which has brought my interests to a new scope towards international affairs. By coincidence, I found this Master of International Studies degree at the University of Sydney in the Faculty of Economics, Department of Government and Public Administration when I moved to Sydney, Australia in 1989.

When I first started studying full-time at the university in 1990, things were so different compared to the time when I was studying at a small college in Massachusetts, U.S.A.: people, atmosphere, weather, ..., etc. It was not hard to adjust, but it then all became complicated when I found a job at IBM/Australia after the first semester. I had to change my enrolment status to part-time. That was the time when I started to struggle through the writing of this thesis until January, 1992.

What has interested me most in the course is the diversified perspectives in viewing world politics and economics. I have enjoyed the course and the people that I have met. It was sad that I could not graduate at the same time with my friends in the course in 1991. I have tried my very best in finish writing this thesis before I leave for Hong Kong.

I decided to choose Hong Kong as my research topic because of nostalgic feelings after being away for more than seven years. The writing of this thesis is based on my personal view as a Hong Kong resident who does not come from an Economics background.

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## ABBREVIATIONS

AmCham - American Chamber of Commerce  
BLDC - Basic Law Drafting Committee  
BDTC - British Dependent Territory Citizen  
BN(O) - British National (Overseas)  
CCP - Chinese Communist Party  
CPI - Consumer Price Index  
EEC - Eastern Europe Community  
EXCO - LEGCO and the Executive Council  
GATT - General Agreement on Tariffs and Trade  
GDP - Gross Domestic Product  
GNP - Gross National Product  
HK\$ - Hong Kong dollar  
HKSAR - Hong Kong Special Administrative Region  
LDCs - lesser developed countries  
LEGCO - Legislative Council  
OMELCO - Office of Members of Executive and  
Legislative Councils  
NICs - Newly Industrialized countries  
NPC - National Peoples Congress  
PAD - port and airport development  
PRC - The People's Republic of China  
ROC - Republic of China (Taiwan)  
RMB - currency used in China  
US - The United States of America  
US\$ - U.S. dollar

## INTRODUCTION



## INTRODUCTION

Hong Kong -- the "Pearl of Orient" -- formerly was part of China, now being a territory of Britain, exhibits the advantages of a city-state earned from both countries. With its excellent domestic infrastructure and political legal framework, Hong Kong has developed from an entrepot city into an economic and financial center in the Asian-Pacific area. It has represented a territorial separateness from China for one and a half centuries that enfolds a society united primarily by economic interests under the British colonial rule.

The economic and political future of the last British crowned colony, Hong Kong, before and after the reversion to the Chinese rule on 1 July, 1997 has attracted the world's attention. The political future of Hong Kong and future government framework have already been outlined according to the *Sino-British Joint Declaration* and the *Basic Law*. The economic future of Hong Kong, on the other hand, has to be examined through its multi-facet orientation based upon its historical development, the pluralistic nature of the society, the domestic and international economic climate, and the tripodal political atmosphere circumscribed by the British Government, the Chinese Government and the local people. Either one of these factors may weigh more on one account or another, but as a whole, all will contribute to the future changes in the economy.

Amongst the various conflicting but reasonable views towards the future of Hong Kong, there are basically three major

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strands of thoughts in speculating the political and economic future of the colony before and after 1997. The optimists believe that Hong Kong will have a smooth transition from a British colony to become an autonomous SAR of PRC. The pessimists and the realist doubt about that. Pessimists believe that Hong Kong will become a SEZ of PRC while the realists believe that Hong Kong will retain as a separate entity as it is.

Undoubtedly, China does not want to "kill the chicken to scare the monkey." The optimistic observers believe that the economy of Hong Kong will remain the same between now and 1997. Kevin Rafferty believes that the economic reasons justify the belief of the optimists. China's economic interest in Hong Kong based on its self-interests reveals that Hong Kong, as the capitalist enclave, is a land of opportunity and an origin of wealth for China based on the "golden goose theory". An Optimist such as An-Chia Wu believes that due to China's aim in recovering Taiwan and transforming Taiwan into a socialist society, China has to prove to the world that the "one country, two system" concept will set up a blue-print for Taiwan in fulfilling China's goals towards national reunification. China will keep its words in accordance to the international agreements signed with Britain. The pessimists, on the contrary, believe that the "one country, two systems" policy will not work and will be hard to implement because of differences in ideological and economic attitude between the socialist and capitalist; which, in turn, will generate ideological and economic tensions. Y.C. Jao

perceived that the Sino-British Joint Declaration per se does not constitute a permanent guarantee for Hong Kong's stability and prosperity. Another pessimist, Yuan-Li Wu, suggested that the principle conditions that have made Hong Kong a prosperous and a developing economy that could continue to exist after 1997 is to be questioned. He believed that Hong Kong will be discriminated so that profits and income will be derived for the state rather than for individuals or private companies. China would be able to receive all of Hong Kong's foreign-exchange earnings after it takes over. Hong Kong will be taxed heavily in order to support high level of political activities exercised by the mainland officials. What Hong Kong and Britain expect from the interpretation of the agreements will be different from that of the Chinese. According to Martin Lee, the best part of the capitalist system China sought to preserve is the rule of law but the British legal system is subjected to change in Hong Kong. As a result to that, the economy and prosperity could suffer. A difference in culture and living standard between Hong Kong and China will cause a conflict in the HKSAR. The "right of abode" and nationality issue will be an obstruction to the free movement of people in Hong Kong. Immigration, brain drain and capital flight will continue as fear about the future ruling of Hong Kong by the unacceptable Chinese Government developed in the general public. Hong Kong's economic status and foreign economic relationships after 1997 will decline as the differentiation between a customs free or tariff free country or not is yet to be questioned.

The realists believe that Hong Kong will retain its

separate status semi-independently. Strategic decisions with wide ramifications will be taken in Beijing. Hong Kong will be sufficiently different from mainland based on its reliance on private ownership, its market-orientated structure, its open and flexible economy and its political framework but operated sufficiently independent of the central government as a capitalist enclave with its own policies as seen by Miron Mushkat<sup>2</sup>. Hong Kong's role of a manufacturing center has declined. In the services sector, its geographical scope is confined to the "greater China" area that will comprise of Hong Kong, Taiwan and Mainland China. Hong Kong will emerge as an economic capital of China instead of the Asia-Pacific region. Realists perceive a slow progression towards slower growth, deindustrialization and provincialization. Apart from social tensions generated domestically such as the outflow of skilled personnel, the emergence of leftists policy in China, "death of Deng Xiaoping, actions and statements by Chinese officials perceived as unfavorable to Hong Kong, escalation of protectionist pressure, global recession, brain drain, capital flight, acceleration in the flow of business to Tokyo, British departure and arrival of PLA"<sup>3</sup> are potential causes in posing changes to the economic and political environment of Hong Kong.

Although the date to revert Hong Kong to China is to come in about five years time, any inevitable social, political or economic events pertinent to determine the future of Hong Kong are yet to happen. All these three schools of thoughts present the general conceptions of the public in attempting to view the future happenings by facts and by projections. In retrospect, "Hong Kong has surmounted

formidable crisis in the past, 1949, 1967, 1983, and rebounded contrary to all expectations<sup>4</sup>." Only time can tell what the future holds for the territory.

The future of the economy is an issue of concern among the local and international community. In considering the past economic performance of Hong Kong, its resilience, in spite of political and social conditions, the economic future appears to be bright and promising. Nevertheless, China's influence is a foremost hinge in the future development in the Hong Kong economy with a tendency towards regionalization of the Southern China-Hong Kong economy. Hence, the author's view is a metamorphosis of the optimist one but with the addition of opinions towards a number of concerning issues. In the following chapters, brief descriptive and prescriptive discussions on the political geography and the economy of Hong Kong will be made on the author's mix-and-match strands of thought on the future of Hong Kong.

NOTES:

1. George Hicks, Hong Kong Count-down, pp.3-4
2. Miron Mushkat, The Economic Future of Hong Kong, pp.146-147
3. *ibid.*, pp.147-148
4. Norman Miners, The Government and Politics of Hong Kong, Hong Kong: Oxford University Press, 1986, p.251

CHAPTER ONE

HONG KONG: A CHINESE AND INTERNATIONAL CONCERN

## CHAPTER ONE

### HONG KONG: A CHINESE AND INTERNATIONAL CONCERN

The British first occupied Hong Kong in 1841 during the Opium War. The Anglo-Chinese involvement over Hong Kong rooted from the three treaties dated back to the mid 19th century. After defeating China in the 1839-1842 Opium War, China agreed to cede the island of Hong Kong to Great Britain "in perpetuity" by the Treaty of Nanking of 1842. When the Treaty of Nanking was ratified in June 1843, Hong Kong officially became a colony of the British world-wide empire "on which the sun never sets"<sup>1</sup>. In 1860, China agreed to cede the southern part of the Kowloon Peninsula, about 3.5 square miles (9.0 square kilometers) across the harbour and south of Boundary Street, to Great Britain by the Treaty of Peking after defeating China in the 1858-1860 Arrow War. China was compelled to lease to Great Britain in 1898 for 99 years an additional 365 square miles (949 square kilometers) of the Kowloon Peninsula, known as the New Territories which comprised 90% of the land area of the colony.

The British government insisted on the validity of the treaties and the expiration date of the New Territories lease on 1 July, 1997. China, however, regards all these three treaties as "unequal" and also regards them as invalid. Hong Kong along with the Portuguese colony of Macau<sup>2</sup> are regarded as China's unresolved "border" problems inherited from the past.

Since 1949, the PRC has considered Hong Kong as Chinese

territory to be recovered. China maintains it could have taken Hong Kong back at anytime in the past 40 years, but did not because throughout the history of the PRC, China was preoccupied with its own internal problems and did not want to deal with the Hong Kong issue<sup>3</sup>.

China has preserved Hong Kong as the British colony until the present time in considering the advantages of keeping Hong Kong prosperous for its foreign exchange source of about 40% through its annual trade with Hong Kong, for it serves as an outlet for Chinese political dissidents and serves to reduce political tension internally as well as an agent for indirect contacts with Taiwan<sup>4</sup>.

PRC had indeed made its position clear on a number of previous occasions about the future status of Hong Kong after 1997. At the height of the Cultural Revolution, Premier Chou En-lai in June 1967 at a banquet in Beijing said:

"Hong Kong and Kowloon have always been Chinese territory .. the Chinese People are determined to give, in accordance with the needs of the situation, every support to their compatriots in Hong Kong till final victory ... Hong Kong's destiny will be decided by our patriotic country-men there and the 700 million Chinese people as a whole, definitely not by a handful of British imperialist<sup>5</sup>."

This was followed in August 1967, by an article from Renmin Ribao (People's Daily) summarizing China's overall position on Hong Kong which reflected that British should not interfere with Chinese policy on Hong Kong:

"Hong Kong has been Chinese territory since ancient times. This is a fact known to all, old and young, in



the world. More than a century ago British imperialism came to China by pirate ships, provoked the criminal 'opium war', massacred numerous Chinese people, and occupied the Chinese territory of Hong Kong. Later it snapped up the Chinese territory of Kowloon and the Chinese territory of the 'New territories'. This is an enormous blood debt British imperialism owes to the Chinese people. Sooner or later, the Chinese people will make a thorough-going liquidation of this debt<sup>6</sup>."

In 1972, the Chinese government declared to the United Nations Special Committee on Colonialism and Decolonization that the settlement of Hong Kong would be an internal Chinese matter that does not concern Britain because of the "unequal treaties"<sup>7</sup>. Huang Hua, China's former Permanent Representative at the United Nations, in a letter to the United Nations Committee in March 1972, wrote:

"The questions of Hong Kong and Macao belong to the category of questions resulting from the series of unequal treaties which the imperialist imposed on China. Hong Kong and Macao are part of Chinese territory occupied by the British and Portuguese authorities. The settlement of the questions of Hong Kong and Macao is entirely within China's sovereign right and do [sic] not at all fall under the ordinary category of colonial territories covered by the declaration on the granting of independence to colonial countries and people ... the Chinese government has consistently held that they should be settled in an appropriate way when conditions are ripe ... should be settled peacefully through negotiations."<sup>8</sup>

Until spring of 1982, the British Government raised the concern of how to arrange for Hong Kong's future status in preparation for the Prime Minister Margaret Thatcher's visit to Beijing later in the year, the issue had then brought the problem of the colony's future to the attention of the PRC elites<sup>9</sup>. The first public indication that China regarded 1997

as an appropriate date to recover sovereignty over Hong Kong was on 16 July, 1982 when Peng Zhen, the Vice-Chairman of the Standing Committee of the National People's Congress, stated that the "reunification of China would be based on the principles of 'respect history, respect the reality, and look forward to the future'<sup>10</sup>".

British's Prime Minister Margaret Thatcher's visit to Beijing in September, 1982 marked the beginning of the Sino-British negotiations to determine the future of Hong Kong after 1997<sup>11</sup>. The future of Hong Kong has drawn international attention<sup>12</sup>. The British and Chinese government agreed to enter into talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong. Beijing regards the Hong Kong model as a blue-print for the peaceful reunification of China through "negotiation, consultation, legislation and implementation"<sup>13</sup>. When considering the approach to resolve the Hong Kong question, PRC intended to retain the benefits that Hong Kong has provided to China and continued its role as a convenient point of access to western technology and expertise exchange. Issues concerning sovereignty and status quo; complicated questions of land leases, civil aviation and nationality were also raised. It took over two years of "high-tides" and "low-tides" of political negotiations to finalize the future responsibility of both the British and Chinese Governments for Hong Kong before and after 1997 before an agreement on "the prosperity and stability of Hong Kong up till and after 1997" was reached<sup>14</sup>. Anxieties and contradictions between Chinese

and British leaders on polarized policy issues had generated stalemate and deadlock during the phases of negotiation<sup>15</sup>. The differential opinions on a continual British administration in Hong Kong to maintain prosperity was ruled out in the first year of negotiation. After the financial panic in September, 1983 due to lack of progress in talks, the British agreed to discuss how to assure the stability and prosperity of Hong Kong without British administration<sup>16</sup>. British Foreign Secretary, Sir Geoffrey Howe, visited Beijing in April 1984 to settle a number of outstanding points and progress was then made in elaborating the Chinese proposals in adopting the "one country, two systems" concept and "Hong Kong people ruling Hong Kong" political framework. The bilateral negotiations was drawn up on 19 December, 1984 when Prime Minister Margaret Thatcher and Primer Zaho Ziyang signed the *Sino-British Join Declaration on the Question of Hong Kong* in Beijing.

The *Sino-British Declaration on Hong Kong* is an international treaty, designed as a "settlement of the question of Hong Kong" and considered to be "conducive to the maintenance of the prosperity and stability of Hong Kong and to the further strengthening and development of the relations between the two countries on a new basis<sup>17</sup>." The agreement consists of the text and three annexes; one covers "The Elaboration by the Government of the PRC of Its Basic Policies Regarding Hong Kong", the second defines the "Sino-British Liaison Group", and the third addresses "Land Leases", which outline the political and economic future of Hong Kong<sup>18</sup>.

Britain will concede sovereignty and administration in Hong Kong to PRC while Chinese respond by agreeing to guarantee to grant Hong Kong considerable autonomy. The theorized "one country, two system" formula will be in practice for Hong Kong<sup>19</sup>. British control will stay until 1997 to continue exercising its colonial government authority and to prepare Hong Kong for the transition to become a Hong Kong Special Administrative Region (HKSAR) of China<sup>20</sup>. The Declaration states that the current legal and economic practices will remain in force after China resumes sovereignty over Hong Kong, promising that Hong Kong's "capitalist system and lifestyle shall remain unchanged for 50 years"<sup>21</sup> and the future political system of the HKSAR should be designed to achieve a high degree of stability<sup>22</sup>.

In May, 1985, the Basic Law Drafting Committee (BLDC) was established by the Chinese Government as an urgent need to deal with the issue of establishing a constitution and determining the political structure of the post-1997 HKSAR in order to promote confidence in Hong Kong. The appointed 23 representatives of Hong Kong people to the 59 member BLDC were prominent businessmen and leading professionals, who would articulate the local community's interests. BLDC member function was to provide legitimacy to the Basic Law and to verify its acceptance to the Hong Kong community during the period of drafting and consultation before it was promulgated<sup>23</sup>. Although Chinese officials first indicated that the Basic Law would be drafted entirely in Beijing, they later conceded that Hong Kong residents would be consulted

through the establishment of a Basic Law Consultative Committee (BLCC), comprised of 180 members from Hong Kong in December 1985, to facilitate their input with conclusions to be integrated into the BLDC's work<sup>24</sup>.

In the optimistic view, HKSAR's autonomy is stipulated by basic law promulgated by the standing committee of the National People's Congress (NPC). The consultation and enactment of the Basic Law, the mini constitution for post 1997 Hong Kong, on 4 April, 1990 as a document for domestic and municipal purposes, are to prepare steps leading Hong Kong towards the eventual implementation of the negotiated agreement<sup>25</sup>.

The Sino-British Joint Declaration on Hong Kong and the Basic Law together will ensure that the socialist system and socialist policies practiced in PRC will not be in practice in the HKSAR<sup>26</sup>. Both agreements are designed to secure a peaceful transition from the status of a crown colony to the HKSAR of PRC, envisaged to assure the stabilization and the continuation of economic and political interests of China, Hong Kong, and the world<sup>27</sup>. The *Joint Declaration* includes provisions for the retention of foreign nationals in public service and states that Hong Kong will remain an international financial center. The Basic Law, on the other hand, creates the legal structure that will preserve China's sovereignty and Hong Kong's autonomy after 1997 and it includes provisions designed to maintain foreign interests in the territory.

People of Hong Kong welcomed the *Joint Declaration*, but yet they have also learnt that the document is more an

"announcement of intention rather than a binding treaty with provisions of clear obligations that the parties must perform<sup>28</sup>". Critics of the Joint Declaration argued that the PRC would like to build the HKSAR into a "super" special economic zone, with its modern facilities but still keep it under the thumb of the Chinese Government. On the other hand, the Basic Law has provoked ranging responses from local residents who have expressed dissatisfaction with key features of the document. Martin Lee, a Queen's Counsel who was elected to LEGCO as the representative of lawyers and a prominent liberal, together with liberal Szeto Wah, a LEGCO member representing the teaching profession and President of 30,000-strong Hong Kong Professional Teachers' Union, were the outspoken ones during the drafting process dispensing criticisms on articles in the Basic Law<sup>29</sup> and were eventually dismissed from the BLDC, forming their own political group<sup>30</sup>.

China's policy towards the territory has domestic and international implications. The strategic objectives of the PRC need a stable international and domestic environment. Lu Ping, Director of China's Hong Kong and Macau Affairs Office, on a visit to Hong Kong in March 1991, again stated that Beijing's intention to restore confidence in the territory's pre and post-1997 future<sup>31</sup>. China does not want to generate any conflicts with any foreign countries that will impair its intentions in controlling the future development in Hong Kong, nor would she want to undermine Hong Kong's prosperity which will impair its foreign exchange earning and economic

development plans.

Much of the discussion surrounding the Hong Kong question has consisted speculations about what will happen to the colony's society, economy and politics pre and post 1997. People were not prepared to talk about the political ramifications of 1997 before 1982 because they did not want to bring up the tricky question of the ninety-nine year lease of the New Territories<sup>32</sup>; nor did they want to interfere the rapid growth of the Hong Kong economy. The Hong Kong Government was unwilling to mention, as were businessmen and others who were busy making money. GDP was growing at 10% on average per year in the 1970s and early 1980s. The long-term growth is predicted to grow at 6-9% a year. The general consensus of the public is "business as usual". Businessmen have opted for the continuation of at least the economic status quo and British involvement will be required to ensure this to happen. The general optimistic mood continued until early 1982 when people believed that such opulence, in economic terms, would continue to allow Hong Kong to prosper until well after 1997. The sudden collapse of the economy, according to some commentators, seems unlikely to happen given the historical facts in the growth of the economy which will be discussed later. In the light of factors the political geography of Hong Kong, that is the British responsibility on the territory, the China factor and the local people; the background of the economy, foreign investment, and the international business and economic climate will be explored subsequently to project and postulate, perhaps a hypothetical

but to a certain extent, a realistic economic future of Hong Kong.

NOTES:

1. Hong Kong composed of Hong Kong Island, Kowloon, New Territories, Stonecutter's Islands and over one hundred other small islands. In 1843, only Hong Kong Island, Stonecutter's Islands and south of Boundary Street of Kowloon were ceded to Britain in perpetuity. The New Territories and other islands are leased to Britain for 99 years in 1898.

2. Macau, also known as Macao, is a coastal city located at the mouth of the Pearl River Delta adjacent to Hong Kong. Lisbon, Portugal, established a colony at Macau as early as 1557 when the Portuguese ships reached Canton in 1514. Kevin Rafferty, City on the Rocks, New York: Viking, 1989, p.93

3. Since the Communist victory in China in 1949, China has gone through phases of new order from 1949-1955, revolutionary revivalism from 1956-1960, the Cultural Revolution and its aftermath from 1966-1976 and its economic reform from 1978 onwards. Maurice Meisner, Mao's China and After, New York: The Free Press, 1986

4. Hungdah Chiu in Chiu, Jao, Wu The Future of Hong Kong, New York: Quorum, 1987, p.5

5. Hong Kong: A Case to Answer, Hong Kong Research Project, Spokeman's Book, 1974, p.34

6. "Hong Kong is Chinese Territory", *Renmin Ribao*, 20 August 1967, op. cit. Hong Kong: A Case to Answer, p.34

7. Frank Ching, Hong Kong and China: For Better or For Worse, New York: China Council of The Asia Society and the Foreign Policy Association, 1985, p.32

8. Kevin Rafferty, City On the Rocks, p.382



9. Jurgen Domes, "The Impact of the Hong Kong Problem and Agreement on PRC Domestic Politics", in Jurgen Domes and Yu-Ming Shaw, Hong Kong: A Chinese and International Concern, Boulder: Westview Press, 1988, p.87,91

10. Kevin Rafferty, City on the Rocks, p.389

11. There was pressure for clarification of Hong Kong's future status as the New Territories lease was due to expire in 1997. The colony's future was expected to be broached by Prime Minister Margaret Thatcher when she visited Beijing in September. Robert Delfs, "Hong Kong: 1997 and All That, Deng talks with Hong Kong Businessmen as China Weighs the Political Risks of an Early Decision on the Colony's Future", *Far East Economic Review*, July 16, 1982; Philip Bowing, Mary Lee and David Bonavia, "Britain and China Will Talk - But a Wide Gap Remains: Still on Borrowed Time", *Far East Economic Review*, October 1, 1982

12. Britain persisted in the belief that the three treaties were legal and valid. Britain started to discuss the future of Hong Kong in 1982, fifteen years before the terminate date. Hong Leung Lam, Political Uncertainty and Portfolio Diversification: A Study of the Hong Kong Stock Market, 1977-84, Armidale: New England Accounting Research Studies No.9 AFM Scholarships & Publications Fund, 1986, p.4; Dennis Duncanson, "The Anglo-Chinese Negotiations", in Jurgen Domes and Yu-Ming Shaw's Hong Kong: A Chinese and International Concern, p.26

13. Byron S. J. Weng, "The Hong Kong Model of 'One Country, Two Systems': Promises and Problems'", in Peter Wesley-Smith and Albert H.Y. Chen, The Basic Law and Hong Kong's Future, Hong Kong: Butterworths, 1988, p.74

14. The Sino-British negotiation period started in September 1982. During the first stage of negotiation, between September 1982 and September 1983, the issue of sovereignty was raised. Negotiations continued from September 1982 until September 1984. On September 26 1984, the PRC and United Kingdom initialed the Join Declaration on the Question of Hong Kong which was formally signed on December 19, 1984 and the instruments of ratification were exchanged on May 27, 1985. Hungdah Chiu in Chiu, Jao, Wu The Future of Hong Kong, p.10; For details of the negotiation period, see Frank Ching Hong Kong and China: For Better or Worse, pp.7-30 and "China-Britain: Hong Kong Agreement Ratified, People Republic of China Year Book 1986, Beijing: Xinhua Publishing House, 1986, pp.266-269

15. In the beginning of the negotiation period, China launched a sustain press campaign against the Prime Minister Margaret Thatcher and the ideas she had raised focused on the treaties and British responsibility for Hong Kong. China maintained a hard line approach and Britain remained tight-lipped. During the second phase of the talks, Britain and China seemed to have reached a deadlock in their discussions. Later in the bilateral talks, British shifted from a hardline position on sovereignty to advocate a residual official presence

after 1997 in Hong Kong. Until towards the end of the period, China wished to talk to Britain about "the prosperity and stability of Hong Kong up till and after 1997" and the talks progressed with a joint communique at the year end of 1984. Felix Patrikeeff, Mouldering Pearl: Hong Kong at the Crossroads, Great Britain: Coronet Books, 1989, pp.116-137

16. In September 1983, the talks seemed to be near deadlock, and the Chinese government stated publicly that, unless agreement was reached by September 1984, China would announce its decision on the future of Hong Kong unilaterally. The lack of progress in talks led to a financial panic in Hong Kong with the value of the Hong Kong currency dropped dramatically against the United States dollar: the exchange rate was over US\$1 = HK\$9.50. Norman Miners, The Government and Politics of Hong Kong, Hong Kong: Oxford University Press, 1986, p.9

17. Georg Ress, "The Hong Kong Agreement and Its Impact on International Law" in Jurgen Domes and Yu-Ming Shaw's Hong Kong: A Chinese and International Concern, p.131

18. *The Sino-British Joint Declaration of Hong Kong*, April 1984

19. This "one country, two system" formula is formulated in 1978 by Deng Xiao Ping on the issue of resumed sovereignty over Hong Kong and for the peaceful settlement of Taiwan in the reunification of China. Joseph Yu-Shek Cheng, "Reform of the Economic Structure and 'One Country, Two systems'", *The Australian Journal of Chinese Affairs*, No.13, January 1985, p.117; "Hong Kong and the 'One Country, Two systems' Principle", *China Reconstructs*, Vol xxxiv, No.1, January 1985

20. The establishment of the Hong Kong Special Administrative Region is in accordance with the provisions of Article 31 of the Constitution of the People's Republic of China and that under the principle of "one country, two systems", socialist system and policies will not be practiced in Hong Kong.

21. The Basic Law will stipulate that "the socialist system and socialist politics shall not be practiced...and that Hong Kong's previous capitalist system and lifestyle shall remain unchanged for 50 years." Frank Ching, Hong Kong and China: For Better or Worse, p.34

22. The Sino-British declaration prepare a platform for the continuation of the economic practice in the territory, as it provides for the maintenance of the elements that have contributed to Hong Kong's success According to the Declaration, HKSAR will have a high degree of autonomy in monitoring its foreign economic and cultural relations with other countries, and issuing its own travel documents, but will not be fully autonomous in foreign affairs and defense. It stresses that: the territory will remain as a free port and a

separate customs territory; retain its identity as an international financial center; continue to operate its markets for foreign exchange, gold, securities and futures; a free flow of capital and the local dollar will remain a separate and freely convertible currency. HKSAR will retain its own independent finances, upon which the Chinese government will not levy tax, and future HKSAR fiscal policy making will be expected to produce budget surpluses. The low income and corporate tax system will remain the same. The US dollar and Hong Kong dollar linkage will be substantially retained to provide political stability, to stabilize monetary control, and to divert economic speculation. The financial market will remain open with a continuation of circulation of Hong Kong currency and Hong Kong will remain as an independent tariff area. Frank Ching, Hong Kong and China: For Better or Worse, p.42; for details, refer to Annex I *Elaboration By the Government of the People's Republic of China of its Basic Policies Regarding Hong Kong in the Sino-British Joint Declaration on the Future of Hong Kong*, 1984

23. Vincent Lo, Chairman of Shiu On Group Ltd, was a member is a member of the Basic Law Consultative Committee. He has been the de facto leader of the business sector. His views have been sought by the Chinese and British Governments. He emphasized that the Basic Law is workable and it is an assurance for the future of Hong Kong. "A Most Reluctant Crown Prince", *Executive*, April 1990; Emily Lau, "Basic Law Drafters Handed a Fait Accompli: Backroom Betrayal", *Far East Economic Review*, 1 March 1990

24. Kevin P. Lane, Sovereignty and the Status Quo, Boulder: Westview Press, 1990, pp.120-122

25. James Cotton "Hong Kong: The Basic Law and Political Convergence", *NIRA Research Output*, Vol.2, No.2, 1989

26. Ambrose Y.C. King, "Hong Kong Talks and Hong Kong Politics", in Jurgen Domes and Yu-Ming Shaw Hong Kong: A Chinese and International Concern, p.55

27. HKSAR will continue to enjoy economic freedom, both internationally and domestically. The characteristics of Hong Kong, as a Chinese metropolitan city with an international orientation in manufacturing, commerce, communications and services, with a westernized administrative infrastructure, legal system, and lifestyle that has nurtured Hong Kong cultural development for over 100 years will remain unchanged.

28. Byron S.J. Weng, "The Hong Kong Model of 'One Country, Two Systems' Promises and Problems", in Welsey-Smith and Chen, The Basic Law and Hong Kong's Future, p.77

29. Martin C.M Lee, "A Tale of Two Articles", in Welsey-Smith and Chen The Basic Law and Hong Kong's Future, pp.309-325

30. Kevin P. Lane, Sovereignty and the Status Quo, p.120

31. Lu Ping said, at a General Chamber of Commerce business luncheon: "I have been involved in Hong Kong affairs for more than a decade. And over the years, I have developed a special feeling for Hong Kong ... Because I know, and also you know, a prosperous Hong Kong means a prosperous China, I promise you, in my capacity as director of the Hong Kong and Macau Office, that I will do everything possible to create an environment where you will all continue to be successful. Because your success is our success." According to Lu Ping, the decision-makers in China have decided, right from the beginning, that, in order to maintain the prosperity in Hong Kong, they must let all foreign investors rest assured that Hong Kong will remain an international financial and trade center. The basic elements in preserving the economic status quo are to provide any foreign capital, both local and foreign, equal opportunities to make profits, and to provide people with equal opportunities to exploit their talents. Gerald A. Delilkhan, "Towards 1997: Being Partners Not Partisans", *Executive*, April 1991, p.32; Bretigne Shaffer and Paul Lewis, "Hong Kong Will be a Golden Bowl", *Executive*, April 1991, p.34

32. The New Territories comprised over 90% of the land area of Hong Kong. When the lease expires, people will have to extend their leases for their land or property titles. Hungdah Chiu, Y.C. Jao, and Yuan-li Wu, The Future of Hong Kong: Toward 1997 and Beyond, p.1

CHAPTER TWO  
THE BRITISH FACTOR

## CHAPTER TWO

### THE BRITISH FACTOR

"... We are now there, quite simply, not for commercial or imperialist, so called, advantages, for they very positively do not exist. We are there because we have offered protection - economic or political protection, directly or indirectly - to a very large number of people. While they still want us there - as they still basically do - we have a very strong moral obligation to remain until such time as Hong Kong people find another solution and ask us to go. As to what we have proved, we have proved that a prosperous and stable - stable by Asian standards - multi-racial society can be built in unfavorable circumstances, against all the odds, by realism and a genuine concern for the welfare of all sections of the community. We have also shown that once one recognizes that China is there, that she is what she is, and that there is no good hoping she would just please go away, then, difficult to understand and deal with as she sometimes may be, it is possible to get along with her by tact and common sense combined with a readiness to be firm where absolutely necessary...<sup>1</sup>".

- Sir  
David Trench

Britain first acquired Hong Kong in the mid-nineteenth century with a purpose to advance and safeguard its economic interest in the Far East. Hong Kong has taken on an influential role in pursuing the imperial interests of Britain in China's trade and has attracted foreign traders to the city. As a crown colony of Britain, Hong Kong's development has been manipulated by the British government and local interest groups. Britain had built a political system in line with the western government system to provide a beneficial trading environment for the British merchants. Early colonial government imposed firm imperial control as Hong Kong was set

up as a military, diplomatic, and trading station. The colonial government encouraged an entrepot free-port framework, in eschewing tariffs and other restrictions on the import of commercial goods, to encourage trading activities. Other than that, the basic responsibilities of the government is in maintaining law and order in the colony and to impose taxes to pay for civil services.

British presence in Hong Kong from colonial period to present accounts for its economic and social development. Lau Siu-Kai iterated "as the economy of Hong Kong -- propelled by private initiative and the capitalist market -- was quite successful, and the Chinese community was capable of coping with many of its problems, the colonial government was able to maintain limited, though continuously increasing, involvement in society and in the economy<sup>2</sup>." The British influence, however, has gradually decreased in various aspects.

Hong Kong has been a naval base for Britain Royal Navy and a place for garrison troops since it was founded as a commercial center. The role of the British Garrison stationed is to back up the police force in case of riots or sudden outbreaks<sup>3</sup>. The strategic era, however, had passed. By 1950s, Hong Kong had become a strategic liability of Britain. There is no longer a need for Britain to keep watch over its interests in China and to contemplate any intervention in China. The naval dockyard was permanently closed down in 1958. The amount of British troops, with a role in internal security duties, has also been reduced to a minimum, leaving the Gurkhas to patrol the Hong Kong-China border in preventing

illegal mainland Chinese immigrants attempting to cross the border and the smuggling of illegal goods. The principle task of the British Army is to act as a visible proof of British's continual commitment in Hong Kong and to retain responsibility for its welfare and security until 1997.

Britain derives economic advantages from her presence in Hong Kong. Hong Kong is not a subjugated market for British goods, which has allowed to Hong Kong develop its own import and export markets. In the free market situation, British goods have to compete in the market the same as others. In 1983, Hong Kong shared 1.8% of U.K.'s imports while exports to Hong Kong was 1.2%. The total trade between Hong Kong and U.K. was 5.4% in 1984, compared to the high volume of trade with Japan, China, and the United States. In 1989, UK exports were only 1.7% of Hong Kong's total overseas sales. In recent years, however, the value of domestic exports to the United Kingdom has decreased by about 9% in 1989 and 1990; and the downward trend is expected to continue (see Table A5 & A12) compared with Hong Kong's trade with other countries, such as the Federal Republic of Germany and China, which have increased in the past few years.

The British is one of the overseas investments in the Hong Kong business environment. In manufacturing industries alone, UK ranks the fourth in the largest overseas investment in Hong Kong in 1989, with a total investment (at original cost) valued at HK\$2,200 million, its stock of fixed assets (at original cost) valued at HK\$1,416 million and its gross additions to fixed assets \$288 million<sup>4</sup>. Compared to the



figures of 1988, however, the amount of investment has decreased by about 6.7%, showing a gradual decline of British influence.

There is a substantial amount of British holdings in Hong Kong. About 1,000 British companies, through direct control, investment, or management are present in Hong Kong; plus about 2,500 British companies have agents there<sup>5</sup>. British investment in Hong Kong equities, where no management or control is involved, is extensive which accounts for 30-40% of the total market capitalization of listed companies in Hong Kong. Most of the British owned companies established are incorporated in Hong Kong but not wholly-owned in Britain, therefore, their investments and subsidiaries do not appear as British<sup>6</sup>. Despite reinvestments by existing British companies have been considerable<sup>7</sup>, some large British companies have moved their regional bases or changed their domiciles from Hong Kong to Britain or to countries such as Bermuda, Cayman Islands, for example, Cable and Wireless PLC, Jardine Matheson, Hongkong and Shanghai Banking Corporation<sup>8</sup>. Thus, it is suggested that there is a decrease in British significance locally in the business and financial sector.

In maintaining the economic rules to attract people and to keep capital for the economic development locally, a substantial amount of foreign revenue for the mother country has also been asserted. Benefits in terms of retirement pensions, commercial facilities payments, and dividends in forms of capital flow back from Hong Kong to the City of London. Since Britain ended its guaranteeing of the value of

Hong Kong's sterling assets in 1974, the Hong Kong Government and banking system have been free to invest reserves in any currency and in any country. As a result, Hong Kong's reserves are no longer a benefit for Britain. The residual advantage is the British Airways Corporation's Hong Kong landing rights at Kai Tak International Airport of Hong Kong which enables them to gain profits through other airlines wishing to land there. The landing right has been a very useful bargaining asset in serving the interests and profitability for the British Airways and the Hong Kong-based, British-owned, airline Cathay Pacific Airways in negotiating third-party landing rights locally and internationally and to secure routes in Asia; and also used as a bargaining counter during the Sino-British negotiations on the question of Hong Kong's future.

Britain's moral obligation to Hong Kong came in as a question also during the Sino-British negotiations when the British delegation claimed its aim was to reach the best settlement for the people of Hong Kong. The responsibility to Hong Kong residents is to be ready to give refuge to any and all of Hong Kong's people who do not want to experience China's traditional despotism<sup>9</sup>. Britain had, however, declared the difference between the various types of passports under the British Nationality Act of 1981. Under the act, a new category of British Dependent Territory Citizens is created which applies to people in Hong Kong who are borned or naturalized in Hong Kong after 1962 and will be designated British-national (Overseas) or BN(O) after 1997<sup>10</sup>. This act

was enacted in 1983 and the "right of abode" for the people in the colony was differentiated through the Immigration Ordinance (Cap 115)<sup>11</sup>. The majority of the British passport holders hoped that if worse come to worse towards 1997, they could emigrate to Britain. Residents are concerned of their future, although anxieties have struck the public as early as 1967 when disturbances and riots induced by the Cultural Revolution in China occurred in Hong Kong:

"In the past, Hong Kong people thought that they were colonial citizens. But after the signing of the Sino-British Joint Declaration, we knew that Hong Kong would go back to China after 1997 and that Britain would not take care of us any more<sup>12</sup>."

Nagging uncertainties in the colony in the past nine years have discouraged residents and they have decided to take on new opportunities in other countries. Already eligible families, professionals, technical and management personnel have planned to obtain an insurance policy by migrating to other countries or to send their children away to study overseas (see Table A7). The enactment of the Nationality Act is viewed by Hong Kong residents as a sign of Britain moving away from its obligations to Hong Kong. Moreover, the reluctance of the British Government in granting people of Hong Kong the "right of abode" in Britain has generated discomfort in the public. Although Foreign Secretary Douglas Hurd's proposal in allowing 50,000 heads of Hong Kong families, along with their spouses and offspring (an estimated 250,000 people in all), to settle in Britain with full citizenship has come into action, the policy was resented by

the public because of the selective procedure and the actual number of people applied for it was only moderate<sup>13</sup>.

Although Britain is the fourth destination of domestic exports of Hong Kong, the volume trading between Britain and its colony is comparatively less than that between Hong Kong - USA and Hong Kong - China trade (Table A5). Thus, it demonstrates that Hong Kong economically is independent from the Britain which in turn, indicates that the colonial relationship between Hong Kong and Britain has little significance in the growth of the economy of Hong Kong.

Commercial advantages for Britain obtained from being the colonial government of Hong Kong was not great except for the benefits of the British Airways. Besides, there is a general conception that Britain has betrayed the citizens of Hong Kong of her moral responsibility. The figures do not indicate a strong distrust in the Hong Kong Government but the percentage of people regards the government as trustful has decreased over the period of time (Table A18)<sup>14</sup>.

People prefer the current economic system and the existing freedoms. The predominant Chinese population in Hong Kong basically is not in favor of the reversion to communist rule, but they do not disfavor it. Colonial rule has been widely accepted and acknowledged by the local population<sup>15</sup>. Results from a survey conducted in Hong Kong in 1982 indicated that 70% of people interviewed approved of a "British-run" Hong Kong<sup>16</sup>. Another survey conducted in 1982 indicated that 64% felt that Hong Kong under British administration but Chinese sovereignty was accepted while only 20% chose a return to China as acceptable<sup>17</sup>. People favor the stability the framework of law and government provided by the colonial government and there is no pressure for Britain to withdraw<sup>18</sup>.

Hong Kong is the "Brightest Remaining Jewel of Britain<sup>19</sup>." Britain has no reason to depart from the colony because she has been the ruling government body for a century elapsed. According to Mr. George Walden, who had formerly worked in China and for the former Foreign Minister Lord Carrington, Britain will deprive herself of the advantages that she enjoys currently after 1997<sup>20</sup>. There are more reasons for Britain to stay than to leave. In economic terms, the net surplus on invisible trade with the colony has outweighed the substantial visible adverse balance on its visible trade. The external affairs of Hong Kong, including defence and aircraft landing rights are British's responsibilities and they have fiscal implications. The currency system is an important factor on fiscal policy. The nature of the financial market also affects the fiscal policy. The Hong Kong dollar was based on the Sterling exchange standard from 1935-1972. Banknotes issued have to be backed by Certificates of Indebtedness issued by the Exchange Fund<sup>21</sup>. Resources of the Exchange Fund resources are used to maintain the exchange rate of Hong Kong. The assets of the Exchange Fund includes investment and can be invested in several currencies and the certificates of indebtedness are issued against payments in Hong Kong dollars<sup>22</sup>.

In about 5 years time, Britain will retreat after exercising its colonial power over 150 years in Hong Kong. The transfer of Hong Kong's sovereignty from the British to the Chinese, on 1 July, 1997, will mark a new beginning for Hong Kong, under which the Special Administrative Region (SAR)

will maintain a 50-year transitional period with a "high degree of autonomy" as stated. The process and nature of decolonization of Hong Kong is unique compared to the former colonies of Britain, although the process employed is similar to the conventional mechanism of decolonization because of the lack of demand for democracy from the Hong Kong population prior to 1989 and also need to fulfill the Sino-British agreements<sup>23</sup>. The normal decolonization process involves the devolution of British power to an indigenous elite. In the case of Hong Kong, the process is to hand over sovereignty to China, whose domestic policy is an obscenity to the colonial population<sup>24</sup>.

All through the history, the presence of the British in Hong Kong before 1997 acts as a buffer in preventing Hong Kong being dragged into Chinese political turbulence<sup>25</sup>. The government is aware of any political challenge from the Chinese masses which has been demonstrated in previous events in 1920s, 1950s and 1960s. There is also a need to prevent the emergence of pro-China and anti-China forces in the territory in provoking anti-/campaigns. According to commentators, the introduction of Chinese elites in the government as collaborators by means of a "co-optive system" in LEGCO and OMELCO<sup>26</sup>, by which a condition of political dependence on the colonial regime, was created. A feature under the co-optive system is the individualization and fragmentation of Chinese elites involved in the colonial government. This is a strategy that detaches the indigenous Chinese elites, including recognized individuals who are accountable to the government and the

middle class elites dominated by big business, from the popular masses, so as to minimize emergence of preeminent political leaders<sup>27</sup>. As a result, a more representative government will be constructed and it will be beneficial to the further implementation of the "Hong Kong people ruling Hong Kong" policy during the 50-years transitional period.

In recent years, the actual exercise of British rule has become minimal<sup>28</sup>. British government has introduced political reforms in Hong Kong before the Sino-British negotiations began, so as to eliminate political prerogatives of the colonial government. The colonial government adapted its methods to political and social changes for the sake of "forestalling political threats, stabilizing its rule and maintaining its political dominance<sup>29</sup>." Hong Kong government is faced with a task to derive representative institutions based on popular support which will be strong enough to resist Beijing's demands after 1997 according to the 1984 Green Paper<sup>30</sup>. Since then Hong Kong government has been trying to implement and formulate democratic institutions despite the fear of offending China and undermining Hong Kong's internal stability<sup>31</sup>.

In conclusion, the British-Hong Kong colonial relationship has decreased over the years in light of the above aspects. What the British Government can achieve before handing back the sovereignty to China is to help refine the political government model for Hong Kong and to increase its speed towards democratization prior to 1997<sup>32</sup>. In the next six years, the responsibility of the British government is to

prepare Hong Kong with a legal system that conforms to the present legal system with Chinese approval<sup>33</sup>. Changes involve free elections where people reconstruct their new government under the basis of the Basic Law to set up their political framework for future governing has been employed recently in the 1991 direct elections to LEGCO from political leaders from local district councils and businesses. In this regard, the British administration's attempt is in the hope to try and restore public confidence in Hong Kong and to allow a smooth transfer in 1997.

*NOTES:*

1. Sir David Trench, Hong Kong and Its Position in the Southeast Asia Region, The Dillingham Lectures, Nov. 3, 1971, East West Center, Honolulu, Hawaii, p.8
2. Lau Siu-Kai, Decolonization Without Independence and the Poverty of Political Leaders in Hong Kong, Hong Kong: Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong, 1990, p.4
3. The size of the British Garrison comprise of 9,000-strong Gurkhas and 1,600 locally recruited soldiers and sailors. The British Garrison consists of Three Royal Navy patrolcraft, one United Kingdom and three Gurkha Infantry Battalions, one Gurkha Engineer Regiment, one Gurkha Signals Regiment, one Gurkha Transport Regiment, one Army Air Force helicopter squadron equipped with eight Scout helicopters, one Royal Air Force squadron equipped with eight Wessex helicopters, and support elements. The British Force Headquarters press release indicated that "the role of the Hong Kong Garrison is primarily to assist the Government in maintaining security and stability and to sustain confidence in the United Kingdom's commitment to Hong Kong. The role of the British Ground forces is symbolic as Hong Kong has a limited external threat and general internal stability. Leonard Rayner, "The Security Forces", in Richard Y.C. Wong and Joseph Y.S. Cheng's The Other Hong Kong Report 1990, pp.193-195



4. For details of British investment in Hong Kong, see Report on the survey of Overseas Investment in Hong Kong's Manufacturing Industries, 1989, Hong Kong Government Industry Department, p.19; Report on the survey of Overseas Investment in Hong Kong's Manufacturing Industries, 1990, Hong Kong Government Industry Department, p.20
  
5. Reg Holloway, "British Involvement in Every Sector of the Economy", *Overseas Trade*, November 1989, p.15
  
6. An example of this is the Swire Group in Hong Kong. Investment of it is made through Swire Pacific or its other subsidiaries and has not shown up as a British (or pro-British) investment. *ibid.*
  
7. P & O's acquisitions by the Beazer Group and by Polly Peck International in 1989, Technophone's production of mobile telephones at a local plant, a new ventures by Philkington, and the opening of about 12 new retail stores by another British company are examples of British investments. The Swire Group capital investment in 1987 was about 270 million Pounds, Hong Kong Telecom plans for a 230m Pounds investment in 1989 and Shell will be making a large investment to move its storage facility. Reg Holloway, "British Involvement in Every Sector of the economy", *Overseas Trade*, November 1989, p.15
  
8. Hongkong and Shanghai Banking Corporation moving away from Hong Kong as a base actually strengthens the territory as a financial center which has make access to international capital markets easier. "Hong Kong Companies Incorporated Overseas (As at October 9, 1990)", *Hong Kong Business: Annual 1991*, p.30; Michael Taylor, "Hongkong and Shanghai to incorporate in Britain", *Far East Economic Review*, 27 December 1990
  
9. George Hicks, "Britain's Betrayal of Hong Kong", *The Asian Wall Street Journal*, Thursday, June 22 1989
  
10. Before 1962, all Chinese born in Hong Kong were entitled to full British passports with the right to settle and live permanently in Britain. In 1962, this right of abode was abolished for all except 'partials' that is those who had at least one grandparent born in Britain. Norman Miners, The Government and Politics of Hong Kong, p.27
  
11. Major changes in legislation took effect on 1 July 1987 in line with the Sino-British agreement on the future of Hong Kong. The Immigration Department began to issue new British National (Overseas) or BN(O) passport which carry an endorsement stating that the holder has a Hong Kong Permanent Identity Card which states the holder's "right of abode" in Hong Kong. The Immigration Ordinance (cap 115) was amended to provide for the "right of abode" and to define "Hong Kong permanent resident" as a person who enjoys that right. The Registration of Persons Ordinance (cap 177) and subsidiary

legislation was also amended to provide for the issue of permanent identity cards to persons defined as "Hong Kong permanent residents" and ordinary identity cards to other persons. Hong Kong: The Facts -- Immigration, June 1989; Norman Gelb, "Complicating British Politics: The Hong Kong Factor", *The New Leader*, February 5-19, 1990

12. Letter to the South China Morning Post, February 13, 1990. Ian Buruma, "The Last Days of Hong Kong", *The New York Review of Books*, Vol XXVII, Number 6, 12 April, 1990, p.44

13. The government forecasted up to 300,000 heads of households would apply but in fact, only 65,000 actually applied. The quotas for every class under which passports are to be allocated were oversubscribed except one, that of managers and administrators. Ronald Skeldon, "Emigration, Immigration and Fertility Decline: Demographic Integration or Disintegration", in Sung and Lee, The Other Hong Kong Report 1991, pp.241-243

14. Trust in the Hong Kong Government has decreased. Wan Po-san, "The Quality of Life", in Sung and Lee, The Other Hong Kong Report 1991, pp.432-433

15. Kevin Rafferty, City on the Rocks, p.392

16. A survey carried out by the Reform Club in March 1982 found that 85% of those questioned preferred that a British administration should continue to govern Hong Kong after 1997 and only 4% wished to revert to Chinese administration. Norman Miners "Government and Politics" in David Lethbridge, The Business Environment in Hong Kong, p.108, 121

17. Kevin Rafferty, City on the Rocks, p.396

18. N.J. Miners, "Government and Politics" in David Lethbridge The Business Environment of Hong Kong, 2nd Ed., p.108

19. Kevin Rafferty, City on The Rocks, p.378

20. Mr. Walden said, "Providing they (other countries) show sufficient awareness of Hong Kong's special status, the Chinese will inherit an educated society with a dynamic economy. Hong Kong's people are as well equipped to survive the transition as they could hope. And of those who fear for the future under Peking's rule, the best and brightest have the chance of making their futures abroad. There could be risks for those remaining. But almost everyone will come out of it better than the British." Peter Dally, "Hong Kong: Fears in London & Peking", *Asian Outlook*, Vol 24, No.1, 1989

21. The Exchange Fund is the repository of not only foreign exchange reserves, but also all other financial assets of the government, eg, fiscal surplus, and serves as the lender of last resort to the financial system. Y.C. Jao, "Monetary Management in Hong Kong", *Singapore Banking & Finance*, p.50
22. The certificates of indebtedness are non-interest-bearing issued by the government's Exchange Fund. Since 17 October 1983 these certificates have been issued to and redeemed from the two note-issuing banks, The Hong Kong and Shanghai Banking Corporation and Standard Chartered Bank, against payment in US dollars at a fixed rate of HK\$7.8=US\$1. The Fund bears the cost of the note issue. *Hong Kong: The Facts - Financial and Monetary Affairs*, September 1989. H.C.Y. Ho, The Fiscal System of Hong Kong, London: Croom Helm, p.16. Michael Taylor, "Fat Mattress", *Far East Economic Review*, 27 December 1990, pp.8-9
23. Unlike any other dependent colonies, Hong Kong will be a breakthrough in "decolonization without independence" in history. In the history of decolonization, this is the first capitalist territory to be voluntarily handed over to communist rule, and again the first time, a Third World country - China - will be taking over a highly developed state: Hong Kong. Leonard Rayner, "The Hong Kong Enigma", *The Round Table*, 1990, No.313, p.41; Lau Siu Kai, Decolonization Without Independence and the Poverty of Political Leaders in Hong Kong, p.1.
24. The attitude of local Hong Kong residents towards China has changed after the June 4th Beijing incident in 1989. Basic Law Therapy, Baring Securities, Hong Kong Research, Hong Kong, May 1990, p.8
25. Frank Ching, Hong Kong and China: For Better or Worse, p.43
26. Lau Sui Kai, "The Political System of Hong Kong" in Y.C. Jao et al. Hong Kong 1997: Strategies For the Future, pp.45-47
27. *ibid.*
28. Britain was urged by the American ally to give up Hong Kong immediately after the Second World War and also at the time when the Chinese communists took over mainland China. Hong Kong has become autonomous as Norman Miners indicated: "In constitutional law the administration of Hong Kong is completely subordinate to the Crown - that is, to the government at present holding office in Britain; but in practice the Colony is very largely autonomous, particularly in internal matters, and discussions between London and Hong Kong are sometimes much more like diplomatic negotiations between two sovereign states when the compliant obedience by an inferior to orders from

above." Hsin-chi Kuan, "Political Stability and Change", in Lin, Lee, Simonis, Hong Kong: Economic, Social and Political Studies in Development, pp.149-150; N.J. Miners, The Government and Politics of Hong Kong, p.203

29. *ibid.*

30. The aim of the Green Paper of July 1984 is to 'develop progressively a system of government the authority for which is firmly rooted in Hong Kong, which is able to represent authoritatively the views of the people of Hong Kong and which is more directly accountable to the people of Hong Kong'. N.J. Miners, "Alternative Governmental Structures for a Future Self-Governing Hong Kong", in Jao, et al. Hong Kong and 1997: Strategies for the Future, p.2

31. There has emerged a broad consensus favoring the acceleration of representative government in the territory in the transitional period before 1997. Joseph Y.S. Cheng, "Prospects For Democracy in Hong Kong After the Beijing Massacre", *The Australian Journal of Chinese Affairs*, No.23, January 1990, p.171

32. Sir Percy Cradock point out that there is a need to maintain Hong Kong's confidence by agreeing to a faster pace of democratization than envisaged in the current draft of the Basic Law. Hong Kong's colonial government is to prepare for a step by step three term process full-scale direct elections to the territory's legislature starting in 1991. The number of directly elected legislators in 1995-1999 will limit to 20, a third of the total number of 60 seats. The number will rise to 24 in the second term from 1999-2003, and to 30 in the third term from 2003 to 2007. "Loss of Nerve", *Far East Economic Review*, 18 January 1990 "Britain's Hong Kong Test", *The Wall Street Journal*, 9 January, 1990; Basic Law Therapy: Economic Report, Hong Kong: Baring Securities, Hong Kong Research, 1990, pp.4-5; Brian G. Martin, China In Crisis, The Parliament of the Commonwealth of Australia, Current Issues Paper No.1 1989-90, p.43

33. A group of lawyers from Hong Kong has formed a committee for consultation on the future legal system of Hong Kong. Headed by Maria Tam and Allen Lee, the committee had visited Beijing in a few occasions and other countries to observe and discuss the future legal system of Hong Kong. As the current British legal system will be in force until 1997 and the Chinese legal system is so different from the British one, a consensus needs to be reached in order to proposed a Chinese accepted but westernized legal system in Hong Kong which is satisfactory domestically and internationally.

CHAPTER THREE  
THE CHINA FACTOR

## CHAPTER THREE

### THE CHINA FACTOR

"I believe that the Chinese government are fully aware of the value of Hong Kong, and of the benefits that they can and do obtain from it. I believe that they also recognize that this value and these benefits will only continue if Hong Kong is permitted to maintain its present way of life and its present way of doing business. It is for this reason that they devised the imaginative concept of 'One country, two systems' and were prepared to set out in such detail how the separateness of the Hong Kong SAR would be preserved for fifty years after 1997<sup>1</sup>." - Sir David Wilson

In viewing the political geography of Hong Kong, China plays an equal and important part as Britain. The future of the colony depends on China's view and its interests as to how much of a role it wants Hong Kong to play in its future development of the nation state and the Special Administrative Region of China. According to the agreements on Hong Kong, China promised to maintain prosperity and stability of Hong Kong in order to preserve its usefulness as a vital agent for the East-West contact. The transition from one form of political structure to another takes time. In order to pose the future development of Hong Kong, the foremost issue to look at is the Chinese Government's point of view on Hong Kong and the economic ties between China and Hong Kong.

It is generally accepted that the most important determinant of Hong Kong's future is the so-called China factor<sup>2</sup>. The relationship between Hong Kong and Mainland China can be symbolized by the Chinese tale of "the Goose that

laid the golden egg"<sup>3</sup>. Hong Kong and China have been closely linked for over half a century geographically, culturally, economically and politically. Founded as an entrepot, Hong Kong has maintained its entrepot trade relationship with China. Both Hong Kong and China are in the key position where one can propel the other forward economically. The close proximity and available resources in China has enable an intimate interdependency to establish with Hong Kong. Since 1949, Hong Kong has developed an economically close but politically separate connection with the Mainland<sup>4</sup>. During the outbreak of the Korean War in 1950-1, the United Nations put immediate restrictions on Hong Kong's trade with China. China decreased its imports from Hong Kong. Since the US included Hong Kong in its embargo of all trade with China, Hong Kong lost the Chinese market and the role of a transshipment center to and from China. Thus, the colony's entrepot role decreased and the characteristics of Hong Kong economy shifted to industrial development<sup>5</sup>.

The relationship between Hong Kong and China has improved dramatically since China adopted the open door policy in 1978, which is regarded as favorable to Hong Kong's economic growth. Hong Kong is seen to have the catalytic role in China's modernization. Hong Kong serves as the middleman to commodity and service trade between China and the outside world<sup>6</sup>. Serving as a meeting point for the Communist systems, capitalism, and countries that China does not exhibit any diplomatic relationship with such as Taiwan<sup>7</sup>, various forms of invisible and merchandise trade with Hong Kong have grown

rapidly and the volume of trade has almost doubled (see Table A14)<sup>8</sup>. Foreign trade needs to be promoted as it is a mean to push Chinese national economy forward<sup>9</sup>. Hong Kong can enhance China in opening up for further economic activities to the outside world. In addition, Hong Kong serves to reduce the political tension at home as well as indirect contacts, such as mail and trade, with Taiwan<sup>10</sup>.

Hong Kong has become an attractive export market for China because of the absence of tariffs, exchange control, and a China label to avoid import restrictions<sup>11</sup>. As a natural deep water port along the coast of southern China, with harbor equipment and container terminal facilities, Hong Kong has facilitated trading activities across the border and with overseas countries. The growth in exports and re-exports has been great (see Table A5)<sup>12</sup>. The resumption of growth of re-exports indicated that Hong Kong has recovered its entrepot role. China has increased the import of producers' goods through Hong Kong for development uses while Hong Kong helps in the sale of China's goods overseas, to earn foreign exchange and to import foreign technology. Hong Kong continues to be important as a transshipment point for all goods because of its proximity to China with its excellent public and port facilities and a free economic and trading system and also as a source of knowledge for business, industry and a center of communication for China<sup>13</sup>.

Hong Kong is a clearing house for remittances to China. Most of China's foreign exchange is derived from trading with Hong Kong. About 70% of China's external investment



originates from Hong Kong and about one third of its foreign revenue is earned through Hong Kong (Table A15). China earns its trade surplus from export and re-exporting via Hong Kong and from its markets (see Table A5 and A10).

Tourism is an important source of foreign exchange earning for China. It allows the building up of better relationship between nations through the exchange of culture and goods. Since the time when Hong Kong was ceased by the British provided a stepping stone for British trade in China, the colony has been recognized by China as a point for contact with the outside world. The popularity of Hong Kong as a destination, as well as being a transit location for both vacation and business travellers, has enabled Hong Kong to expand its tourism industry. This has happened through its reputation of being a shopper's paradise, its manufacturing and financial industries, and being in a strategic location in the Asian-Pacific region. Since China opened its doors to foreign trade and investments, tourism has been financially beneficial to China. Situated at the international border of China, the emphasis on Hong Kong as a service center and a gateway to China has attracted growing intra-regional travels within Asia which accounted for over 60% of tourists received by Hong Kong<sup>14</sup>. In 1990, Hong Kong residents made 17 million trips to China while foreign visitors through Hong Kong made 1.2 million trips<sup>15</sup>. In 1990, tourism in Hong Kong amounted to US\$18 billion which is the third largest earner of foreign exchange<sup>16</sup>. Room occupancy rate in first half of 1990 show an average of 76.7% as compared to 79% in 1989<sup>17</sup>. Four new hotels

were opened in 1990. At the end of 1990, there are 29,200 hotel rooms available in Hong Kong. A total of 15 new hotel projects are scheduled for 1991 and 7 are scheduled for 1992. By the end of 1992, there will be 36,600 rooms available. The total expenditure spent by visitors in Hong Kong in first half of 1990 showed an increase of 5.1%, amounting to HK\$18,699.56, as compared to the same period in 1989<sup>18</sup>. It is believed that China's further engagement in international trade and investment will continue its attractiveness to foreigners. PRC officials have expressed their willingness to maintain the cosmopolitan characteristics of Hong Kong, thus further increasing visitors to en route Hong Kong to the Mainland<sup>19</sup>. This will in turn be beneficial to the expansion of the tourism industry of Hong Kong which will increase Hong Kong's foreign exchange earnings.

Hong Kong serves as a conduit of market information and technology transfer to China. The transfer of technology formerly from Japan, West Germany, France and the United Kingdom in the sixties has been replaced by the United States, Hong Kong, Japan and West Germany in mid-1980s<sup>20</sup>. Hong Kong also provides a market and a production training ground for China as there are some skills can only be practiced in a free-market environment.

Hong Kong is the largest investor in China, accounting for about two-thirds of the US\$33.7 billion direct foreign investments in China from 1979 to 1989 (Table A16)<sup>21</sup>. Overseas investment is used as a lever to increase financial strength and to introduce foreign technology. Through Hong

Kong, China is able to attract foreign investment and welcome foreign capitalists to do business on the socialist soil. The growth in foreign investment in China is shown in Table A16.

As a capital-raising center for China, Hong Kong raise about 80% of China's syndicated loans<sup>22</sup>. Loans from Hong Kong and loans syndicated in Hong Kong accounted for over 20% of total external loans to China<sup>23</sup>. The chief representative of Bank of Japan, Shigeoki Togo, said that Hong Kong will remain a major loan-syndication center in Asia after 1997, primarily serving China and the Southeast Asian region<sup>24</sup>. Local and foreign banks provide short and medium term loans while the Bank of China Group in Hong Kong allow access to short term loans to Hong Kong firms for investments in China. The amount of capital export and import between China and Hong Kong is actually breakeven<sup>25</sup>. This indicate that not only Hong Kong is investing in China, China is also one of the major foreign investors in Hong Kong.

China's importance to Hong Kong is equally significant. China has been the largest investor in Hong Kong since 1978. China operates businesses with Southeast Asian countries through Hong Kong incorporated companies because special privileges are earned, one of which is the low corporate tax system (16.5%). China's eagerness to attract foreign investments is advantageous to Hong Kong businessmen. China will become more significant for the economy of Hong Kong due to the rising protectionism sentiments in the West. Western countries imposed quotas on textile industries so as to prevent competition with low-cost garments imported from LDCs.

An example is the US Jenkins Act which maintains a quota system on Hong Kong's textile industries. Overseas markets are not in favor of exports from LDCs and has transformed the NICs economic and growth strategy from export orientated to domestic demand-led economies. Hence it is predicted that Hong Kong will overtake the other three dragons in NICs, having only a small domestic market and a vast market of China.

Chinese investment has increased and diversified from traditional activities like banking, import/export, wholesale/retail, warehousing and transportation. The Bank of China Group continues to expand its involvement in Hong Kong by investing in manufacturing, real estate, construction, infrastructure projects, supermarkets, hotels and to establish various joint commercial ventures<sup>26</sup>. An example of this is the Everbright Company which was established in 1983, a private firm run by a Mainland Chinese Wang Guangying, serves as an agent for China's Ministry of Foreign Economic Relations and Trade and to introduce foreign businessmen to investment in China. By mid 1986, the Bank of China Group has become the second largest bank in Hong Kong behind the Hongkong and Shanghai Banking Corporation, with a US\$260 million seventy-storey headquarters designed by architect I. M. Pei constructed in the Central district<sup>27</sup>. Chinese officials attempt to prove that they have placed a high-value in Hong Kong through its multi-dimensional involvement, thus, contribute to continual prosperity in Hong Kong.

China overtook the US in 1985 to become Hong Kong's largest trading partner with a total volume of trade amounting

to HK\$343 billion. Serving as an important outlet for Hong Kong exports, China emerged as the second major market for Hong Kong in 1987 about 14% of its domestic exports and has been the largest re-export market for Hong Kong in entrepot trade (see Table A5). In 1989, China accounted for 30% of Hong Kong's total external trade: 19% of its domestic export, 30% of its re-exports, and 35% of its imports<sup>28</sup>.

China is an important source of import supply for Hong Kong. She is the main supplier of food, water and industrial raw materials for Hong Kong. The prices are low and commodities are abundantly available. Therefore, this relationship promotes economic growth and reduces the cost of living in Hong Kong. Despite political concerns about 1997 have soared up prices and housing costs, Beijing has hailed its contributions to the colony through the sale of food and other daily necessities at lower prices. The inflation rate rose by an average of 9.8% in 1990 and an estimated 12% in 1991 were domestically generated pressure by labor shortage and the significant increases in wages and salaries.

Hong Kong is in a more advantageous position than the other NICs - South Korea, Singapore and Taiwan - which are also facing the same problem of labor shortage that has been reflected by the low unemployment rates (Table A17)<sup>29</sup>. One of the advantage that Hong Kong benefits from the open door is policy is through the relocation of manufacturing bases to the South China or to the Pearl River Delta area where production cost is relatively cheaper with land readily available, abundant labor supply and cheap raw material<sup>30</sup>. With the

establishment of the coastal economic zones in Shenzhen, Xiamen and Hainan Island, the volume of trade increased between Hong Kong and China. The cost of production becomes cheaper from the low-cost industrial raw material and offshore production plants located in Southern China. This form of outward processing activity in China for Hong Kong companies helps to relieve the pressure of labor shortage on the Hong Kong economy.

A decrease in cost in Hong Kong dollar translate into a decrease in cost in US dollars, which in turn enable Hong Kong products to gain competitiveness in the world market. Since Hong Kong will remain as a separate customs, economic-financial area in post-1997 and HKSAR will remain under the Central government, Hong Kong will exhibit a separate identity from Shenzhen.

The economic ties between China and Hong Kong has been colored with the confidence crisis of 1997<sup>31</sup>. During the Sino-British negotiation period, the emphasis of the economic importance of Hong Kong to China was brought in as a bargaining asset when the Chinese Foreign Minister Wu Xueqian announced in October 1983 that China wished to talk about "the prosperity and stability of Hong Kong up till and after 1997" at the time of negotiation deadlock, after the financial panic and the devalue of the Hong Kong dollar to the US dollar<sup>32</sup>. With the Sino-British Joint Declaration finalized the handing over of the territory to China in 1997, Hong Kong is planning to maintain its existing social and economic systems for fifty years as a Special Administrative Region (HKSAR) of the PRC. In the aftermath of the Sino-British negotiation period, the

interest of maintaining a stable and prosperous Hong Kong has flourished through the vast Chinese investments in almost every sector of the economy.

China is a profound growth factor for Hong Kong's trade. The mutual trade dependency between China and Hong Kong is growing rapidly and this is significant in the integration of the two economies. It would be important to China that Hong Kong continues to prosper economically during the transitional period. The "50 years of capitalism" is determined to be beneficial for China economically<sup>33</sup>. Gordon Wu, chairman of Hopewell Holdings, indicated that Hong Kong influenced China economically because the 50 years transitional period will allow 50 years of capitalism to be continued in Hong Kong. The Basic Law, which is a mini constitution of the HKSAR, has constructed the future political environment while the Sino-British Joint Declaration has provided a basic framework on which the future economic activities will operate under the "one country, two systems" principle<sup>34</sup> under which important economic concessions are granted for a stable and prosperous economy: "its continued status of a free port, a separate customs territory, an international financial center, an independent and fully convertible currency, absence of exchange control, free flow of capital, freedom to manage its own finances and an undertaking on the part of China that it will not levy any taxes on or in Hong Kong<sup>35</sup>."

Hong Kong benefits from China's Most Favored Nation (MFN) status. The Governor of Hong Kong, David Wilson, and John Kamm, the Chairman of the American Chamber of Commerce, both

spoke publicly on 23 May 1990 to persuade the Bush Administration to keep China as the US's "Most favored nation" for the sake of Hong Kong. The granting or keeping of MFN status to China will regain the commercial advantages for Hong Kong because of Hong Kong and China's trade interdependence<sup>36</sup>. As mentioned earlier, China and Hong Kong remain in close economic ties. The loss of MFN status of China which in turn is influenced by political developments in China itself, would mean a drastic loss for the economy of Hong Kong<sup>37</sup>. US is the largest overseas market for China which comprise of 37.5% in 1989. About 99% of China's exports to Hong Kong are re-exported to the US<sup>38</sup>. The renewal of MFN status in 1990 and 1991<sup>39</sup> guarantee the lowest possible tariffs for Chinese exports to the US, or else tariffs on Chinese exports to the US market will increase drastically<sup>40</sup>. If the MFN status was not renewed for China, Hong Kong in turn would have lost at least one-third of its export earnings and people would be out of work. Investments in South China would have decreased and suffered in re-export trade. In addition, Hong Kong's domestic exports and re-exports to China would be affected because 77% of domestic exports and 46% of re-exports to China are connected with export activities in China. The China's MFN status represents a long-term key to confidence in the territory relating to investments and trade endeavors. This implies that as long as the relationship between China and US is maintained with the preservation of the MFN status and China's export to the US goes through Hong Kong as re-export is sustained, Hong Kong will continue to benefit from it.



The strategic role of Hong Kong in China's open door policy was reemphasized by Zheng Tuobin, the minister of China's Ministry of Foreign Trade in June 1989<sup>41</sup>. He stressed that tourism, foreign loans and commodity exports were the three major sources of China's foreign exchange earnings. Due to the Tiananmen incident, the first two sources had reduced and China has to rely on commodity export. As Hong Kong was one of the major channels for exports, China has become more dependent on Hong Kong. China's export continued to grow after China devalued the Renminbi against the US dollar in December 1989 by 21% and 9.6% in November 1990 in order to expand its export to pay off its foreign debts. The export growth rates in terms of US dollar in 1989 was 10.5%, 18.3% in 1990 and 19.5% in the first seven months of 1991<sup>42</sup>. China's open door policy and Hong Kong's economic value to China are the best guarantees for the territory's future. As a result, providing China adheres to the way Hong Kong has run its economy in the past, then she will benefit.

Hong Kong is also a model of modernization for the opening of China. It is a model of ingenuity with expertise in urban development, such as infrastructure, e.g. housing, education, transportation, and electricity. An example is the building of highway networks connecting both sides of the border planned by Gordon Wu. Investments, technology and management skills are introduced through Hong Kong. Hong Kong has introduced industrialization and urbanization in the South China region<sup>43</sup>, Hong Kong has placed a cultural influence on the Guangdong and Fujian provinces through business, technological, media exchange

and filial relationships.

The impact of the event at Tiananmen caused China to be an international outcast until the beginning of 1990. Coupled with economic crisis and failure of reform, compounded inflation in China has erupted<sup>44</sup>. A return to central control of CCP through a strict austerity programme has been adopted to control inflation and problems raised by the combination of a market and planned economy<sup>45</sup>. Being an outcast, China was denied borrowing of short term loans from foreign governments and international organizations. The means of gaining foreign exchange from tourism and foreign investments also plummeted because the political stability of China was in fear. China becomes more dependent on Hong Kong on short term commercial loans. The share of foreign loans to China increased from 5.9% in 1988 to 9.4% in 1989 while the share of Hong Kong tourists in total tourist arrivals also increased significantly to about 66% in 1990<sup>46</sup>. The share of investment in Guangdong province in national foreign investment rose as the region remained stable. Hong Kong's share in foreign investment remains high in the region, thus, the tendency of the share of Hong Kong in foreign investment in China increases.

In the political arena, the direction of socialist reforms in China may also be changed by the influence of Hong Kong. China has an interest in maintaining a stable and prosperous Hong Kong to provide a "diplomatic, commercial and military post for the maintenance of contact with the outside world, and for the acquisition of foreign exchange and the

securement of logistic support in times of national defence<sup>47</sup>." Hong Kong is an apparatus for experimenting the "One Country, Two Systems" concept so as to set up blueprints for the national reunification of China<sup>48</sup>, that is to include Macau and Taiwan, the largest piece in the puzzle, back into the Chinese territory. The reversion of Hong Kong to Chinese rule is of propaganda value to the Chinese objective, claiming that the "one country, two systems" formula, originally coined in connection with the retrocession of Hong Kong, should in future be applicable to the unification with Taiwan. A favorable and workable Hong Kong model will convince Taiwan to accept the reunification proposals.

It has been indicated that "every change in the political winds of mainland China creates an eddy in Hong Kong" and the "overriding reason why Hong Kong continues to thrive in the shadow of its hostile neighbor is economic, ideologies apart, they need each other<sup>49</sup>." The future of Hong Kong will be strongly determined by the rational interests of China under the considerations of a net balance of costs and benefits in economic and political terms<sup>50</sup>. The Beijing government has to preserve the economic activity in Hong Kong to maintain local and foreign confidence and interests. The development of China under a politically strong and economically effective government is essential for the future development of Hong Kong<sup>51</sup>.

Although the level of industrial development, internationalization, legal and judicial system are different between China and Hong Kong, the influence of Hong Kong on

China is imperative to both future economic and social development. Hong Kong has a small, but dynamic economy, with a large industrious population, a competitive market, and existence of profit-driven business enterprises. Hong Kong has exhibited itself to be efficient, adaptable and resilient historically with traits in various aspects that mainland China does not have. Hong Kong provides an industrial, entrepreneurial, modern image that the masses of China desire. In addition, it provides a structural framework for Chinese leadership to learn and to experience later, such as a free market mechanism, legal system, culture and ideology, and education reform while PRC provides the economic stimulus for Hong Kong's commercial, financial, and industrial institutions, on which the territory's entrepreneurs thrive.

In the short to medium terms, so long as southern China's infrastructure is maintained and communications and transport keep moving across the border, Hong Kong's economic relationship with China will not be affected. Hong Kong's political future, under which China will overlook the local self-ruling government structure with a liberal legal and economic background, provides a viable asset for the economic development of both Hong Kong and China. The benefit from Hong Kong's economic performance will in turn, facilitate the mainland's economic development. A mutually beneficial equation operates between the two and which in turn consolidates the importance of one another. The differences in products that Hong Kong and China produce make it complementary for both economies to depend on each other. The

increasing Chinese exploitation of Hong Kong will mean greater economic interdependency in the near future and the cost to China for any deviation from its open door policy could be prohibitively high<sup>52</sup>. If current economic and political policies continue in China, Hong Kong - the "goldmine"<sup>53</sup>- will continue to be useful and Beijing may not want to attempt to make major changes in the territory<sup>54</sup>. Conversely, PRC would face international humiliation if Hong Kong is to fall apart because of a major economic disaster induced by economic downturn or political turmoil in China when it has been reviewed to the world that China will adhere to the agreements on Hong Kong in preserving its capitalistic nature of the economy and the fact that Hong Kong and China is mutually dependent on each other economically<sup>55</sup>. Therefore, the economic future of Hong Kong will continue to look hopeful. The local confidence in Hong Kong, on the other hand, needs to be investigated.

- NOTES:
1. Kevin Rafferty, City on the Rocks, p.444
  2. H.C.Y. Ho and L.C. Chau, The Economic System of Hong Kong, Hong Kong: Asian Research Service, 1989, p.4
  3. The golden-goose theory is perceived by the optimists as one of the reasons why they believe Hong Kong's free-market economy will survive until 1997 and beyond. George Hicks, Hong Kong Countdown, Hong Kong: Writers' & Publishers' Cooperative, 1989, p.3
  4. The political relationship between Hong Kong and China is separate because Hong Kong is ruled by the British Government under the name of a colony. Not until 1982 when the Sino-British negotiations began, China started to involved in the future government structure of Hong Kong.
  5. Until China advocated the four modernization plans in 1979, Hong Kong again takes on the entrepot role. Gene Gleason, Hong Kong, London: Robert Hale Ltd., 1963, p.39

6. Hong Kong/Guangdong/Shenzhen -- A Successful Business Partnership, Hong Kong Trade Development Council, 1990

7. Foreign investors who are interested in investing in China will set up their office in Hong Kong where business costs are competitive and free of taxes imposed by Communist China. They found Hong Kong to be a more congenial place to do business than Peking or Shanghai. Kevin Rafferty, City on the Rocks, p.328

8. The total foreign trade turnover in 1979 was US\$29.4 billion while in 1988, it has gone up to US\$100.8 billion. China -- Will She Be Right?, Baring Securities Hong Kong Research, October 1989, p.11

9. China tolerate an economy with different ideology existed since Hong Kong used to be part of China historically. Hong Kong plays an important role as China's most important source of foreign exchange earnings. John C. Hsu, "Hong Kong in China's Foreign Trade: A Changing Role", in A.J. Youngson, China and Hong Kong: The Economic Nexus, pp.156-157

10. Hong Kong has been a refuge for revolutionary leaders such as Sun Yat-Sen, Zhou En-lai, Ho Chi Minh and Jose Rizal. It has been a stepping stone for Chinese escaping the mainland on their way to other countries. Nancy Langston, "Hong Kong, Land of the Free", *Far East<sup>er</sup> Economic Review*, 6 December 1990; Chiu, Jao and Wu The Future of Hong Kong, p.5

Hong Kong serves as a base for intelligence activities and an outlet to release dissatisfied overseas Chinese. An example of this would be the Yang Yang affair in 1989. Emily Lau, "Sino-British Relations Deteriorate Over Dissident's exit to the US", *Far Eastern Economic Review*, 2 November, 1989

11. When China was isolated from the rest of the world, Hong Kong became PRC's only link with the rest of the world because of its geographic position. The volume of trade between China and Hong Kong grew at an average annual rate of 53 percent between 1949 and 1951 and a continuous trend despite the years of domestic political instability in 1952, 1954-55, 1961, and 1967 and in 1957-1958 world economic recession. Teh-pei Yu, "Economic Link Among Hong Kong, PRC, and ROC", in Jurgen Domes and Yu-Ming Shaw Hong Kong: A Chinese and International Concern, pp.111-114

The opening up of China since the Third Plenum of the 11th Chinese Communist Party (CCP) Central Committee in November 1978, on the other hand, resulted in the reintegration of China's economy into the international economy and increased industrial cooperation between Hong Kong and China. Joseph Chai, "Industrial Co-operation between China and Hong Kong", in A.J. Youngson, China and Hong Kong: The Economic Nexus, p.104; Y.C. Jao, "Hong Kong's Role in Financing China's Modernization", in A.J.

12. Hong Kong reexports to China showed rapid growth rate and its performance has been strongly influenced by the course of China's business cycle. The two major business cycle peaks were in 1984-85, and in 1988 while the three troughs were at 1981-82, 1986, 1989-1990. Tim Lee, "China's Business Cycle and its Impact on Hong Kong Exports", *Asian Monetary Monitor*, May-June 1990, Vol. 14 No.3

13. Cheng Tong Yung, The Economy of Hong Kong, p.360

14. Business visitors accounted for 25% of total by the end of 1989 while vacation visitors accounted for 56%. 29% of total arrivals in Hong Kong went across the border into China were estimated. Since Taipei Government lifted the restrictions on citizens from visiting China, an estimated of around 700,000 Taiwanese visitors went over to China primarily via Hong Kong. Other Asians like the Japanese, South Koreans accounted for almost 60% of tourist received by Hong Kong reflecting rising income of those countries, expanding relationships with China and entailing business ties between them. "Tourism in Hong Kong", *Hong Seng Economic Monthly*, March 1991

15. Hong Kong 1991: A Review of 1990, p.58

16. Sung Yun-wing, "Hong Kong's Economic Value to China", in Sung and Lee The Other Hong Kong Report 1991, p.488

17. There are three types of hotels in Hong Kong: high tariff hotels, medium tariff hotels, and hostels and guest houses. The room occupancy rates for all types from 1984 to 1989 was 89%, 88%, 85%, 90%, 92%, and 79% consecutively. The occupancy rate for the first 8 months of 1990 was 70%, 77%, 80%, 81%, 75%, 77%, 76%, and 77% consecutively. Statistics are cited from "Hotels Target 36,600 Rooms by 1992", *Hong Kong Business Annual 1991*, p.142-144

18. *ibid.*

19. Kevin P. Lane, Sovereignty and The Status Quo, pp.141-142

20. Direct transfer of technology from Hong Kong to China is limited due to its financing and providing support services. Joseph C.H. Chai, "Economic Relations with China" in H.C.Y. Ho and L.C. Chau The Economic System of Hong Kong, Hong Kong: Asia Research Services, 1989, p.146

21. About 65% or US\$12 billion of the foreign capital invested in China were from Hong Kong. In the same period, the investments by Hong Kong businesses in China were valued at about US\$13 billion accounted for about 70% of the total foreign investments. "Revival of Hong Kong's Investment in China", *Hang Seng Economic Monthly*, October 1990
22. Guangdong economist and policy planner Zhou Chuan says that Hong Kong will become evermore important to China as a capital-raising center. Elizabeth Cheng and Michael Taylor, "Pearl River Cities in Partnership with Hong Kong: Delta Force", *Far East Economic Review*, 16 May 1991
23. Sung Yun-wing, "Hong Kong's Economic Value to China", in Sung and Lee, The Other Hong Kong Report 1991, p.484
24. Borrowing will speed up the tempo of economic development. Elizabeth Cheng and Michael Taylor, "Pearl River Cities in Partnership with Hong Kong: Delta Force", *Far East Economic Review*, 16 May 1991
25. Joseph C.H. Chai, "Economic Relations with China" in H.C.Y. Ho and L.C. Chau The Economic system of Hong Kong, Hong Kong: Asia Research Service, 1989, p.143
26. Hong Kong/Guangdong/Shenzhen -- A Successful Business Partnership, Hong Kong Trade Development Council, 1990
27. Kevin P. Lane, Sovereignty and The Status Quo, p.78, 102, 105, 133
28. Tim Lee, "China's Business Cycle and its Impact on Hong Kong Exports", *Asian Monetary Monitor*, May-June 1990, Vol.14, No.3 and Hong Kong Annual Report 1989, pp.56-57
29. Ho Lok-sang, "Labor and Employment", in Sung and Lee The Other Hong Kong Report 1991, pp.217-220
30. The cross-border economic integration amounted to HK\$400 billion between Hong Kong and southern China in 1990. The Guangdong province is seen as the workshop for Hong Kong. Elizabeth Cheng and Michael Taylor, "Pearl River Cities in Partnership with Hong Kong: Delta Force", *Far East Economic Review*, 16 May 1991, pp.64-65



31. Jamie P. Horsley, "Echoes from Tiananmen: As 1997 Approaches, Hong Kong Grows more Sensitive to Events Across the Border", *The China Business Review*, September-October 1989
32. Felix Patrikeeff, Mouldering Pearl: Hong Kong at the Crossroads, p.127
33. Bretigne Shaffer and Paul Lewis, "Hong Kong will be a Golden Bowl", *Executive*, April 1991, p.35
34. Refer to the *Sino-British Declaration on the Question of Hong Kong and the Basic Law*.
35. D.K. Patel, "One Country, Two Systems - Prospects for Hong Kong's Economy Under Chinese Sovereignty", in Y.C. Jao Hong Kong and 1997: Strategies for the Future, p.325
36. Mr. John Kamm, the President of the American Chamber of Commerce in Hong Kong led an AmCham delegation to Washington in May 1990 to present Hong Kong's investment image by stressing the territory's importance to the US and lobby against China sanctions, promote US immigration Law reforms and highlighted Hong Kong's position in technology trade. "Mission to Sway Anti-China Lobby in Washington", *Hong Kong Trader*, May 1990, No.49, Hong Kong Trade Development Council and John Kamm, Remarks to the House of Representatives Foreign Affairs Committee Hearings on China's MFN Status, Hong Kong: The American Chamber of Commerce, May 16, 1990
37. John Kamm, Chairman of the American Chamber of Commerce, said that Hong Kong would be badly hurt by removal of MFN. Sharon E. Ruwart, "Championing US Business Interests", *The China Business Review*, July-August 1990
38. *Hong Kong Economic Indicators*, February 1990, No.74
39. The US House of Representatives on 10 July, 1991 voted to approve a bill that would extend China's most-favored nation (MFN) trade status for a year. "MFN Battle Moves to US Senate", *Far East Economic Review*, 25 July, 1991, p.14
40. For example, tariff on stuffed dolls will rise from 12% to 70%, while on women's dresses will go up from 5.9% to 90%. "China's MFN Status and Hong Kong's Interest", *Hong Kong Economic Indicators*, June 1990, No.76

41. Sung Yun-wing, "Hong Kong's Economic Value to China", in Sung and Lee The Other Hong Kong Report 1991, p.494
42. *ibid*, p.493
43. "Hong Kong Surface, China Core", *Far East Economic Review*, 1 October, 1987
44. *Hong Kong Economic Indicators*, February 1990, No.74
45. Tight credit curbed skyrocketing growth in rural industries, cutting demand for scarce resources such as electricity and non-ferrous metals were examples of increased control in restraining inflation. Resources were channeled to producers of basic materials. The central government also curbed imports through outright bans. Eugene Linn, "Uncertainties Remain Despite Moderate Economic Gains", *Hong Kong Business Annual 1991*
46. Sung Yun-wing, "Hong Kong's Economic Value to China", in Sung and Lee The Other Hong Kong Report 1991, p.493
47. Hsin-chi Kuan, "Political Stability and Change", in Lin, Lee, Simonis, Hong Kong: Economic, Social and Political Studies in Development, p.149
48. James Cotton, "Hong Kong: Convergence or Divergence", *Journal of Northeast Asian Studies*, Vol VI, No.4, Winter 1987-88
49. It is also indicated that Hong Kong is sensitive to changes of the political climate in China. Any political changes in China produced a thermometer effect on the Hong Kong stock market. Gene Gleason, Hong Kong, London: Robert Hale Limited, 1963, pp.69-70. Tien-tung Hsueh, "Hong Kong's Model of Economic Development", in Lin, Lee, Simonis, Hong Kong: Economic, Social, Political Studies in Development, pp.28-29
50. Geiger and Geiger, Tales of Two City-States" The Development Progress of Hong Kong and Singapore, p.135
51. Erik Guyot, "Hong Kong Businessmen Are Shedding Their China Inhibitions: Projects Long on the Back Burner are Moving Forward Again", *Executive*, March 1990, pp.34-35

52. Andrew Scobell. "Hong Kong's influence on China." Asian Survey, Vol. xxviii, no.6, June 1988; Hong Kong Economic Indicators, February, 1990, No.74

53. Kevin Rafferty, City on the Rocks, p.290

54. The problem for Beijing is how to keep Hong Kong buoyant and profitable if the 1997 issue becomes acute. If China disrupt Hong Kong's economy and to deprive it of its basic resources, she will actually turn the knife against her own throat. Alvin Rabushka, Hong Kong: A Study of Economic Freedom, p.91; John Cooper, Colony In Conflict: The Hong Kong Disturbances May 1967-January 1968, p.292

55. Political and economic changes have influenced the direction of Hong Kong's economic Development and the structure of the Hong Kong economy. Edward Y.C. Chen, "The Impact of China's Four Modernization", in A.J. Youngson, China and Hong Kong: The Economic Nexus, p.84

CHAPTER FOUR  
THE LOCAL PEOPLE

## CHAPTER FOUR

### THE LOCAL PEOPLE

"We are Chinese by race. We love our country with Chinese blood flowing in our bodies. But we don't like the communist system<sup>1</sup>." - Martin Lee

Hong Kong is a blend of Chinese culture and cosmopolitanism. The dualism of Chinese and educated western thoughts of the Chinese population is the motivation for development and growth in Hong Kong. Hong Kong, as it is generally perceived, is a place to fulfill their capitalist aspirations and also a place to live. People have led a materialistic and sufficient life. The dedication and hard working cultural nature of the people, inflow of capital resources from China, and the entrepreneur skills of the Shanghainese industrialists who fled from China at the time of the communist victory in 1949 to pursue a better economic opportunity in Hong Kong is one of the forces behind the industrial growth. Taking the privileges offered by the strategic location of Hong Kong, such as the lack of government intervention in the private sector, low taxation rates, free movement of goods, people and capital and the free market economy structure, businesses established or operate there to able to maximize their profit.

When the 1997 question came into the discussions by the Chinese and British Government in 1982, some residents began to worry about the economic and political future of Hong Kong and their own future. It is arguably true that the panic has began since 1949 when the Communist took over China and

reinforced during the disturbances and riots in Hong Kong induced by the Cultural Revolution in 1967 and the panic has intensified since 1982. A crisis of confidence has <sup>been</sup> generated in the community. One of the many concerns was the nationality issue. Britain freed herself from any obligation towards the British subjects in Hong Kong through a succession of Immigration Acts from 1962 and the enactment of the British Nationality Act of 1981<sup>2</sup>. A specific measure was taken in redefining the "Citizens of the United Kingdom and Colonies" into three classifications: British Citizenship, British Dependent Territories Citizenship (BDTC) and British Overseas Citizenship (BOC)<sup>3</sup>. People who are borned or naturalized in Hong Kong after 1962 are considered second-class citizens. They are categorized currently as BDTCs and by 1997, their status will become British Nationals (Overseas) or BN(O)s. In addition, new restrictions on the "right of abode" in UK to both BDTC and BOC were imposed<sup>4</sup>. In 1990, the British Nationalities Act was passed by the British Parliament and Britain decided to grant 50,000 Hong Kong key individuals, including top professionals, technical and managerial staff, civil servant members and eligible householders and their families, the right of abode while considering special provision for employees of the British companies, of which some believed the scheme was to supply them with a confidence to remain in Hong Kong<sup>5</sup>. People showed a lack of interest in the scheme as the application procedure was complicated while the quota is only relatively small<sup>6</sup>. Some people also feel that the scheme was a form of reluctant

handout from Britain and an insult to the dignity of the people. In addition, the United States Congress passed a Hong Kong resolution which will increase the number of Hong Kong residents wishing to migrate and to provide these people with an incentive to stay on in Hong Kong until the year 2002, when they can leave for the US<sup>7</sup>. Such policies assure that Hong Kong people will have a right of residence at some time in the future and do not need to worry for the time being, therefore, they can continue to work or run their business as usual in order to sustain confidence level within the general public.

China, however, has never recognized the Hong Kong Chinese as British subjects, but as compatriots of China and China has accused Britain of being intransigent in violating and breaking the past agreements on Hong Kong because of the provision of "right of abode" to some local inhabitants. Hong Kong's future prosperity and development are paramount to China. China plans to keep Hong Kong as a separate area from the mainland, so that she can avoid absorbing and does not need to reeducate the bourgeois, Westernized Chinese in Hong Kong, who disclaim mainland lifestyles and politics. In order to protect communist China's and overseas interests, China employed the "one country, two systems" concept on post-1997 Hong Kong. To some residents, 1 July 1997 is just another day on their calendars. An early survey in mid-1982 reported about 50% of the respondents, aged from 15 to 60, were not concerned about the 1997 question and 84% said it had no effect on their lives<sup>8</sup>. To some others, it seems to be the end of their economic freedom and opportunities when China

takes over. Residents who fled from the communist regime are concerned for their family welfare when China takes over Hong Kong. Results of surveys in 1983 and 1984 indicated that among the ones who expressed a greater concern over the issues, are the ones who are better-educated people, members of the higher social class, business and professional groups<sup>9</sup>.

In the short run, some local residents are trying to secure their future in seeking an insurance policy abroad<sup>10</sup>. A survey carried out in 1982 reported 22% of the respondents would "try every means to leave" if Hong Kong reverted to China" but only 8% would if it became a Chinese special economic zone<sup>11</sup>. In the same survey, 57% of the respondents in general said they would emigrate if the "chance were provided, but mainly because of the problems of overcrowding, housing, traffic, crime and hectic lifestyle" but only 1% indicated they emigrate as a "precautionary measure" against changes in the future<sup>12</sup>. The emergence of "emigrant advisors" and "consultants" has made emigration an easy pay-to-get-done type of process of gaining overseas residence rights. A magazine called *Emigrant* is published in Hong Kong with information about different countries and aspects of migrant lives. Emigration tends to focus on large metropolitan centers in the three most popular countries such as USA, Canada, and Australia<sup>13</sup>. Some people have already put money away in foreign countries and purchased properties overseas. Children are sent abroad to study and live. Others have gone through the "backdoors" by overseas property dealings,



marriage offers, or "purchase of passports" through investments in government projects in some smaller countries.

According to government figures, between 1981 to 1986, about 20,000 people emigrated per year; 50,000 people migrated overseas in 1989 alone and 60,000 people left in 1990 (see Table A7). Most of the ones who leave are bread-winners, business and technical professionals. Since Hong Kong has become more internationalized, the qualitative out-migration is an old phenomena in Hong Kong. There has been a net outflow of average 20,000 a year between 1970 to 1981<sup>14</sup>. The trend of migration has intensified since 1982 (see Table A7). In the world context, Hong Kong's emigration problems look very tiny<sup>15</sup>.

A concern raised about emigration is the loss of highly-skilled people and business professionals which has resulted in a perceived problem of brain drain. The brain drain is seen as a two-way movement both in and out of Hong Kong. While the exodus of local residents appears to be prevailing in recent years, the trend of reverse migration is apparent. Reverse migration comprised of returning students, returning emigrants and new immigrants, excluding the intake of Vietnam refugees every year<sup>16</sup>. A rough estimate of about 10% of people who have acquired passports overseas are moving back and an assumed amount of overseas student at the rate of about 10,000 per year are returning<sup>17</sup>. This trend is perhaps going to increase as the recession in Australia and Canada have reduced employment opportunities, while early leavers who are entitled to full overseas passport in their selected countries

return.

In order to compensate for the perceived brain drain problem, strategies suggested are to include brain gain, import semi-skilled workers, increase the female working population, increase productivity, increase contract labor and aid junior replacements. In recruitment, strategies suggested are to retain and restrain and to attract new local tertiary graduates and overseas recruitment is also performed<sup>18</sup>. In the private sector, multinational companies (MNC's) attempted to reduce the number of people leaving the business by offering employees overseas assignments which enabled them to acquire foreign passports. Other companies have tried to recruit educated and professional overseas Chinese to work in Hong Kong<sup>19</sup>. On the other hand, there has been a key shift from Western to Asian expatriates arriving in Hong Kong to fill executive and senior management positions<sup>20</sup>. There is an increase in the number of overseas talent and expatriates seeking opportunities to fill the executive and management positions in Hong Kong which are left open when people emigrate. As a cost-effective alternative when more Asian MNC's emerged who set up regional bases and bring in their own expatriates, Hong Kong will attract a mobile pool of Asian talents developed from Singapore, Malaysia, Taiwan, Philippines, India and Pakistan, as well as through the regionalism of business connections within Asia and around the world<sup>21</sup>.

Another problem that is generated by the process of emigration is the inevitable loss of confidence in the colony

due to capital flight factor over short and long term period. Money has been moving in and out of Hong Kong continuously for more than four decades. In the previous confidence crisis in 1967, a rough estimated amount of HK\$800 million left the colony between the end of April and the end of July and the flight continued through 1968 and 1969<sup>22</sup>. The amount of money withdrawn, however, represented only a very small percentage of the money held. The flight of local capital was also a problem during the 1982 to 1984 negotiation period when the Hong Kong dollar devalued against the US dollar due to the lack of confidence in the progress of the talks and large companies such as Jardine announced the company move to Bermuda. With the recent trend in emigration, the amount of local capital leaving Hong Kong tends to accelerate. An Australian banker forecast that Hong Kong migrants and investors would transfer at least HK\$6,000 million to Australia and HK\$24,000 million to Canada in 1990<sup>23</sup>. On top of that, the amount of money brought in by the process of "business migration" applications to Australia amounted to about HK\$2,700 million in 1990<sup>24</sup>. In addition, money would be drawn in by families and professionals also migrating. It is reported that the cumulative potential investment in Canada between 1985 to 1990 amounted to about HK\$60,000 million<sup>25</sup>. In sum, a total amount of HK\$60 billion capital outflow worldwide for 1989 alone was estimated<sup>26</sup>.

Hong Kong has successfully funded the continuous capital outflow because of the high saving ratio, averaged at 32% of GDP in the past two decades. Capital outflow did not hinder

economic growth, and this left GDP to rise at an average of 9% p.a. Historically, Hong Kong had net inflows of capital during periods of economic prosperity while net outflow are recorded during times of political problems in Hong Kong and China. During the period of the Cultural Revolution, the average annual outflow of capital was around 5.1% of GDP. However, between 1979 and 1984, there was a net inflow of capital in Hong Kong when confidence peaked with the implementation of China's open door policy<sup>27</sup>. Net inflows of a 6.5% of GDP was recorded in 1981 while on 1982, net inflows declined reflecting anxiety over the future of Hong Kong. Capital outflow resumed since 1984 and averaged at 4.4% of GDP. As a result of the Tiananmen incident, net outflow increased to 8% of GDP in 1989, however, in 1990, outflow has decreased to 5.3% of GDP. With figures showing an outflow of 4.2% of GDP in first quarter of 1991 and a preliminary figure of 4% of GDP for second quarter of 1991, the decrease in capital outflow reflected a higher degree of confidence in the Hong Kong<sup>28</sup>.

On the other hand, domestic savings is another area to look at in the case of capital flight. In macroeconomic context, capital flight must be financed by the gap between domestic saving and investment. In order to face capital outflow, Hong Kong has to increase domestic savings relative to investment or to reduce investment relative to savings available. The growth of Hong Kong dollar deposits has kept in pace with GDP<sup>29</sup>. It is believed that, as long as the US interest rates stay high, Hong Kong will continue to attract

capital inflows and upward pressure will be exerted on the Hong Kong currency<sup>30</sup>. Money is also flowing in as a combination of foreign currency swap deposits and local units funds which replaced the local capital that has left. Thus, it indicates that it is still affordable for Hong Kong to endure a continuous capital drain without causing problems to the external balance, providing Hong Kong continues to increase its exports of services<sup>31</sup>.

Hong Kong is a westernized city but it carries the Chinese tradition. Some scholars perceives Hong Kong in another manner :

"The city-state is politically but not socioculturally part of the United Kingdom; conversely, it is socioculturally but not politically

part of China<sup>32</sup>". A substantial proportion of the population of Hong Kong are refugees from South China, mainly peasants and workers from the rural areas and market towns of the Guangdong province, who are eager to start a new life in Hong Kong and to take advantages of the business opportunities provided. They have been able to recognize themselves as British subjects with westernized civilization but still carry the traditional Chinese cultural identity.

The sociocultural characteristics of Hong Kong Chinese have been shaped by historical inheritance from their ancestors and the developmental experiences. Confucianism perpetuate from the older generations is preserved within the Chinese community. The traditional attitudes and behavior norms, loyalty to natal families, self-reliance developed as relationships that are personalistic and multifaceted. Changes over the years through personal interactions and westernized education have reduced individual identification

with family and have fostered a sense of self-identity, but the extensive network of communications among Chinese for family, business, cultural and protective purpose still persist<sup>33</sup>. People have expressed their motivations for achievement predominantly in economics and these key ingredients help to maintain their continual dynamism and economic progress in Hong Kong.

The majority of the people came to Hong Kong because of political and economic interests and they arrived in Hong Kong after the colonial government was in force. They do not have any interests in politics nor are they interested with involvement in the ruling of the colonial government. This has provided a basis for the political apathy of the general public who do not wish to participate or interfere with the running of the government<sup>34</sup>. The colonial government does not provide much channel for political participation and activity. After the Star Ferry Riots in 1966 and the disturbances of 1967-68, the government had made structural changes to facilitate better relationships between the government and the people through the establishment of the system of urban district officers and local offices and suboffices<sup>35</sup>. The local government later developed institutional and administrative structures including District Administration, District Boards, Regional Councils<sup>36</sup>. Introduction to direct elections to the District Boards in 1982 and other government structured announced by the government in a series of Green Papers and White papers issued, in addition, is to provide a greater representative

government structure to reflect public opinion.

The level of political participation has been minimal until the emergence of pressure groups appeared in 1970s trying to articulate view of various sectors to the government due to the increase of government interventions in socioeconomic spheres, the tendency of professional in various sectors and the advent of a new generation borned and educated in Hong Kong<sup>37</sup>. People started to become more sensitive and alert to politics when the Sino-British negotiations started<sup>38</sup>. Electoral participation increased between 1982 to 1986. Group activity has also flourished since 1982 as local residents tried to influence Chinese and British policy on sovereignty as well as sub-issues on political and economic structures and about personal freedom after 1997. Political organizations are formed to voice views and opinions, although they did not have the chance in participating or exerting influence on the course of politics. Some of them have disappeared, but groups such as Meeting Point, the Hong Kong Affairs Society, the Hong Kong People's Association and the Progressive Hong Kong Society are still active and well remembered by the public<sup>39</sup>.

At the time when the drafted *Basic Law* was released in April 1988 for consultation, people were not prepared to make any comments. A survey released in mid-May 1988 indicated that 56.7% of the respondents who had picked up copies of the draft Basic Law had not read the document<sup>40</sup>. The outbreak of the Tiananmen Square incident, however, have made local inhabitants to become more politically aware of their Chinese

identity. This event had brought to the attention of up to 1 million people in Hong Kong protesting for the support of pro-democracy movement. Various political organizations and various action groups are also formed to voice their opinion in public and to protest for their rights, such as the United Democrats of Hong Kong headed by Martin Lee and Szeto Wah was launched in April 1990, and a pro-business political organization called the Liberal Democratic Federation chaired by LEGCO member Allen Lee<sup>41</sup>. The political climate in Hong Kong is clouded with an irreparable negative image of the ruling government of China<sup>42</sup>. When the Basic Law was formally enacted and promulgated on 4 April 1990, a high percentage of the respondents showed little interest reflected that the majority of the people have accepted the facts of the *Basic Law* the way as it is (see Table A13)<sup>43</sup>. The confidence level of local residents, however, have plunged even more (see Table A9)<sup>44</sup>.

In order to restore confidence, the British Government launched a four-prong package which included the right of abode scheme, enacting the Bill of Rights<sup>45</sup>, speed up the pace of universal suffrage in 1991 and embark a HK\$127 billion "Rose Garden" project including the airport and port project (PAD). Such an attempt by the British to repair the damage done locally by Tiananmen has generated misunderstandings and recriminations in China, who declared that the Hong Kong administration should not make "any unilateral decisions on matters affecting the transition without getting Peking's approval<sup>46</sup>." Thus, tensions between the British and Chinese



Government were, again, generated until the release of the Memorandum of Understanding in July 1991 when a consensus was reached on the funding of the PAD project (see Postscript for detail). In considering the recent trend of steady growth in the barometers of confidence, including the property, stock and gold markets, the confidence level of investors and local people has been relatively stable.

Confidence affects the view towards Hong Kong's economic future as the problems of "brain drain" and "capital flight" become pertinent. In conclusion, immigration as well as capital outflow has been a long term phenomenon throughout the history of Hong Kong. Considering the period of time since former Prime Minister Thatcher's visit to Beijing in 1982 until British's Foreign Minister Hurd's visit to Beijing in April 1991, this is almost a prolonged 10 years of immigration and capital flight over the political future of Hong Kong. With a considerable decrease in capital net outflow, an increase in return migration, GDP has shown a growth in recent years (see Table A1). Brain drain and capital outflow are not of any significance to the domestic capitalist nature of the colony. If one perceives this overall picture in another manner, emigration and capital outflow are results and indications of the globalization of investments and culture of Hong Kong residents. Capital left when people and businesses move from Hong Kong will be invested or save in overseas countries. Revenue, profits and savings in terms of foreign currency will flow back when people move back, invest or running businesses between Hong Kong and the overseas

countries as Hong Kong has the advantages of a lower taxation rates and the absence of capital gains tax. Besides, overseas Hong Kong Chinese will continue to maintain their network of communications for personal and business interests. This will enable them to gain advantages in trans-continental business transaction and to extend their network to pursuit and further their interests and ambitions. In return, it is beneficial to the international economy of Hong Kong. On the other hand, Hong Kong's economic future is contingent upon continued foreign interests and Hong Kong's attractiveness for business in the international arena are left to be discussed.

NOTES:

1. Martin Lee, Q.C. said on 12 February, 1990. Ian Buruma, "The Last Days of Hong Kong", *The New York Review of Books*, Volume XXVII, Number 6, 12 April, 1990

2. Felix Patrikeeff, Mouldering Pearl: Hong Kong at the Crossroads, p.111; Kevin Rafferty, City on the Rocks, p.389

3. Britain declared that from 1 July, 1997, all BDTs will cease to be BDTs. All Hong Kong Chinese (Chinese BDTs), whether they are holders of the "British Dependent Territory Passports" or not, are Chinese nationals under the Nationality Law of the People's Republic of China. The British Nationality Act enacted in 1981 was implemented on 1 January 1983. There are six types of citizenship or status: British Citizenship (BC), British Dependent Territories Citizenship (BDTC), British Overseas Citizenship (BOC), British Subjects, Commonwealth Citizenship, and British Protected Persons. About 3.25 million of Hong Kong's 5.5 million people are BDTs, 3.19 million by birth and 53,000 by naturalization. The Sino-British Declaration states that all Hong Kong BDTs will lose their BDT status as of 1 July 1997 but will be able to acquire another suitable status known as British National (Overseas) - BN(O). The BN(O), like to BDT or BOC, does not have the right of abode in Britain. Richard Chuang, "'Home' Insurance for British Nationals in Hong Kong?", *Asian Affairs*,

4. Chang Chak-yan, The Fate of Chinese British Subjects in Hong Kong, Department of Government and Public Administration, The Chinese University of Hong Kong, 1986; Georg Ress "Hong Kong Agreement and Impact on International Law", in Jurgen Domes and Yu-Ming Shaw Hong Kong: A Chinese and International Concern, pp.146-150; *ibid.*

5. Rup Narayan Das, "A Nationality Issue: Ethnic Indians in Hong Kong" in Richard Y.C. Wong and Joseph Y.S. Cheng The Other Hong Kong Report 1990, pp.147-148, Emily Lau, "Britain Opens its Doors to the Colony's Brightest", *Far Eastern Economic Review*, 4 January 1990

6. Ronald Skeldon, "Emigration, Immigration and Fertility Decline: Demographic Integration or Disintegration?", in Sung Yun-Wing and Lee Ming-Kwan, The Other Hong Kong Report 1991, pp.241-243

7. US Congress passed the Hong Kong Resolution in its 1990 Immigration Act which make provisions of 12,000 visas a year over a period of 3 years for employees of American companies in Hong Kong to allow people who have US permanent visas to stay in Hong Kong until 2002. *Sing Tao News Daily*, Hong Kong edition, July 21, 1990

8. Charles F. Emmons, "Public Opinion and Political participation in Pre-1997 Hong Kong" in Jao et al., Hong Kong and 1997: Strategies For the Future, p.58

9. *ibid.*

10. Hsin-Chi Kuan, "Political Stability and Change in Hong Kong", in Lin, Lee, Simonis, Hong Kong Economic, Social and Political Studies in Development, p.145

11. Charles F. Emmons, "Public Opinion and Political Participation in Pre-1997 Hong Kong", in Jao et al. Hong Kong and 1997: Strategies for the Future, p.59

12. *ibid.*

13. Emigration tends to be focused on large metropolitan centers such as Toronto, Vancouver, Los Angeles, San Francisco, New York and Sydney. Other countries such as

Panama, Costa Rica, Kingdom of Tonga have also offered investment or business migration programs for Hong Kong people.

14. Kevin Rafferty, City on the Rocks, p.469

15. Michael C. Davis, "To go or not to Go", *Far East Economic Review*, 18 April 1990; "The Brain Drain: It's Real but not a Catastrophe", *Hong Kong Business*, Annual 1991, p.27

16. In the past 15 years, more than 170,000 Vietnamese refugees arrived in Hong Kong as Hong Kong maintains the first asylum status. At the end of June, 1990, there were 54,341 Vietnamese boat people in Hong Kong. Chris Bale, "Vietnamese Boat People", in Wong and Cheng, The Other Hong Kong Report 1990, pp.159-165

17. The number of people returning from migrated countries is difficult to compute as residents of Hong Kong who have already acquired citizenship overseas can enter Hong Kong with their identity cards, which cannot provide accurate statistics for calculation. People from Canada can return to Hong Kong directly or indirectly through the United States because of no passport check of movement. This also includes "astronauts", the ones who have migrated but leave their families abroad to ensure citizenship and maintain their jobs in Hong Kong. The name "astronauts" refers to them as they spend long period of time in the air during long-distance commuting from overseas countries. Ronald Skeldon, "Emigration, Immigration and Fertility Decline: Demographic Integration or Disintegration?", in Sun and Lee, The Other Hong Kong Report 1991, pp.238-239; Paul C.K. Kwong, "Emigration and Manpower Shortage", in Wong and Cheng, The Other Hong Kong Report 1990, pp.326-327

18. Hong Kong must redeploy, retrain and maintain a flow of talented people if it is to successfully meet the challenges of tomorrow. "Working at Success in a Changing Marketplace", *Executive*, May 1990; "Hong Kong's Human Resource Challenge: A Comprehensive Policy is needed to Increase and Upgrade the Work Force for the Future", *The China Business Review*, January-February 1990

19. Hong Kong companies are offering repatriates compensations packages that include housing subsidies, education allowances, and reimbursement for moving costs as incentives to attract expatriates in overseas countries to return and work in Hong Kong. This group include business and technical professionals, and also managerial staff. Scott Shelton and Robert Adams, "Filling Hong Kong's Labor Pool:

Strategies for Getting and Keeping Brainpower", *The China Business Review*, January-February 1990, p.50

20. This is a result to brain drain vacancies in a market demanding greater localization and regionalization of executive positions. Dermot Tatlow, "Pan-Asian Head-Hunting", *Executive*, December, 1989

21. 26,147 new companies were registered in Hong Kong in 1990 with the Companies Registry of the Registrar General's Department. These included companies incorporated in Hong Kong and all overseas companies that have established a place of business in Hong Kong. There were 2,635 of companies incorporated overseas registered from 68 countries that established a place of business in Hong Kong, out of which 624 from the US, 349 from United Kingdom, 293 from Japan and others. Hong Kong 1991: A Review of 1990, p.105

22. It was estimated that about HK\$800 million left the colony, but it is suggested it would be more realistic that around HK\$400 million had actually left. John Cooper, Colony in Conflict: The Hong Kong Disturbances May 1967-January 1968, Swindon Book Company, Hong Kong, 1970, p.274; Felix Patrikeeff, Mouldering Pearl: Hong Kong at the Crossroads, pp.50-51

23. Paul C.K. Kwong, "Emigration and Manpower Shortage" in Wong and Cheng The Other Hong Kong Report 1990, pp.298-299

24. *ibid.*

25. The Reader's Digest reported the amount of funds being transferred to Canada was about HK\$60,000 million but it seemed to be an underestimated amount. *ibid.*

26. *ibid.*

27. Hong Kong Economic Indicators, August 1989, No.71

28. Sung Yun-Wing and Lee Ming-Kwan, The Other Hong Kong Report 1991, pp.xxiii-xxiv

29. *Hong Kong Economic Indicators*, August 1989, No.71

30. Luk Yim-Fai, "The State of the Economy", in Sung and Lee, The Other Hong Kong Report 1991, p.140

31. The economy of Hong Kong tends to be more service oriented as it accounts for over 70% of its GDP. Trade surplus in the last 15 years of the 20 will neutralize capital flight without resulting in a depression of the local economy. In order to ensure that Hong Kong will export quality services, it is necessary for Hong Kong to invest in domestic infrastructure projects. Hong Kong Economic Indicators, August 1989, No.71

It is also indicated that if there is stable growth in the economy and inflation is kept low, emigration will become more unattractive, thus the number of people leaving will decrease. Alan S.F. Siu and Luk Yim-Fai, "The State of the Economy", in The Other Hong Kong Report 1990, p.208

32. Geiger and Geiger, Tales of Two City-State: The Development Progress of Hong Kong and Singapore, p.139

33. *ibid.*, pp.34-60

34. The political apathy of most Hong Kong Chinese is regarded as a virtue. Lo Shiu-hing, "Decolonization and Political Development in Hong Kong: Citizen Participation", *Asian Survey*, Vol. xxviii, no.6 June 1988, p.629

35. For details, see Norman Miners, The Government and Politics of Hong Kong, p.140

36. District Administration and District Boards were established in 1981 while the Regional Councils were introduced in 1985 to replace the Heung Yee Kuk. *ibid.*, pp.166-190

37. The community seems uninterested in the politicians' machinations. Emily Lau, "Basic Law Overshadowed by Emigration Speculation: No News is Good News", *Far Eastern Economic Review*, 12 October 1989

38. Electoral participation increased between 1982 to 1986. Group activity has also flourished since 1982 as local residents tried to influence Chinese and British policy. Lo Shiu-hing, "Decolonization and Political Development in Hong Kong", *Asian Survey*, Vol.xxviii, No.6, June 1988, p.627

39. The Meeting Point was formed in January 1983. The Hong Kong Affairs Society was formed in February 1984. The Hong Kong People's Association was formed in November 1984 and the Progressive Hong Kong Society was formed in February, 1985. Louie Kin-Sheun, "Political Parties", in Sung and Lee, The Other Hong Kong Report 1991, p.59

40. Joseph Y.S. Cheng, "The Post-1997 Government in Hong Kong: Towards a Stronger Legislature", *Asian Survey*, Vol. XXIX, No.8, August, 1989, pp.745-746

41. Emily Lau, "Peking's Tune", *Far Eastern Economic Review*, 23 August 1990

42. Jamie P. Horsley, "Echoes from Tiananmen: As 1997 Approaches, Hong Kong Grows More Sensitive to Events Across the Border", *The China Business Review*, September-October 1989

43. In a survey conducted by the Baring Securities, a high percentage of the respondents did not want to reflect opinion on their attitudes toward the Basic Law. Basic Law Therapy: Economic Report, Hong Kong: Baring Securities Hong Kong Research, pp.8-9

44. The confidence level index maintained at around 95 to 96% during 1988. During the Tiananmen Square incident, it dropped to 82%. It rose back to around 86 to 88% before February, 1990 when it dropped to 79%. *ibid.*

45. The Bill of Rights was proposed after the Tiananmen Square event for the territory. Emily Lau, "Colony's Government Proposes Bill of Rights: Confidence Building", *Far Eastern Economic Review*, 26 October 1989; Tsim Tak-Lung, "The Implementation of the Sino-British Declaration", in Wong and Cheng, *The Other Hong Kong Report 1990*, p.138

46. Philip Bowring and Emily Lau, "Tougher Chinese Line Damages Colony's Prospects: Turning Up the Heat", *Far Eastern Economic Review*, 14 February 1991

CHAPTER FIVE  
THE ECONOMIC DEVELOPMENT



## CHAPTER FIVE

### THE ECONOMIC DEVELOPMENT

Hong Kong, founded in 1841 by the British, has evolved from a fishing village into a major business and financial center in the Far East. Since the Second World War and the outbreak of the Korean War, Hong Kong began to boom economically and transformed from a traditional entrepot economy into one of the world's leading financial and trading centers<sup>1</sup>. Hong Kong, together with Taiwan, Singapore and South Korea are currently known as the Newly-Industrializing Countries (NICs) or Asia's four dragons which have experienced rapid industrialization and economic development in the late twentieth century<sup>2</sup>.

In the past 40 years, Hong Kong has undergone a process of economic transformation. The influx of Chinese from mainland China during the period of 1948-1951<sup>3</sup> under the pressure of political events had provided Hong Kong with a surplus of cheap and industrious hard-working labor, capital resources and skilled entrepreneurs that constituted the basic elements for the rapid industrialization. The use of English and Chinese (Cantonese) as official trading languages in the colony, excellent transport and communications systems have enabled the colony to assimilate the westernized high-tech skills with local Chinese entrepreneurial skills to build up a strong industrialized and modernized economy. With its strategic geographic location in the Far East, Hong Kong serves as a natural gateway to China which has facilitated and

flourished regional trade.

The decline in Hong Kong's entrepot trade with China in 1951-1952 was caused by the Communist take-over in China and the United Nations embargo in 1951 due to the outbreak of the Korean War<sup>4</sup>. As a consequence of these historical developments accompanied with the insignificance of the agricultural sector, Hong Kong was then transformed into an industrial economy during 1952-56 and then into a manufacturing economy in the late 1950s. Until after the War and the commencement of World War II in Europe, Hong Kong's trade pattern then altered considerably from entrepot trade to colonial trade. During the post war period, Hong Kong was able to develop its export industries when world demand for light manufactured goods was at a high level<sup>5</sup>. Concentrated in the areas of manufacturing and light industries, particularly in the textile industry initially, Hong Kong has then began to diversify its range of products, such as manufacturing of toys, plastic flowers and electronics, and also to expand to new overseas markets such as the western Pacific and the Southeast Asian countries.

The advantage and potential for Hong Kong to experience rapid industrialization can also be explained by institutional factors. Under the British administration, Hong Kong enjoys a structural benefit in the commonwealth market which was important to Hong Kong in the early stage of industrialization<sup>6</sup>. The capitalist nature of Hong Kong gives political influence to the business sector. There is a high degree of political dependence of the business sector on the

colonial government. Hong Kong needs British goodwill for negotiating tariff and quota restrictions on its exports to Britain when seeking to improve access to the European Common Market and for maintaining a currency to sustain its competitiveness in overseas markets. In addition, the Hong Kong British legal system has been conducive to profit-maximizing behavior, specifically "serving as a stabilizing and certainty-enhancing factor" and "leaving ample space for economic players to expand their creative energies<sup>7</sup>." Other sectors understand that there is no replaceability of the colonial rule.

The Hong Kong Government has contributed to the economic development which has given rise <sup>to</sup> an autonomous source of prestige and legitimacy. The political framework of the Government was brought down from the Victorian colonialism with no major changes made over a century despite socioeconomical events and political upheavals occurred domestically and internationally. The primary role of the government, as it has always been since its establishment, is to provide the necessary infrastructure and a sound legal and administrative framework conducive to economic growth and prosperity, and the creation of an economic environment for profitable investment for private enterprises.

The economic policy of Hong Kong is largely dictated and constrained by the circumstances of the economy except for overriding social considerations or emergencies<sup>8</sup>. In the case of Hong Kong where it is lacks of resources but consumption is high, the Hong Kong Government has pursued an orthodox liberal

economic policy which is primarily relied upon private initiative and the market process for economic growth.

Laissez-faire government is the key factor for shaping a climate conducive to economic development. The role of the Government from 1898 onwards, through the enactment and enforcement of laws under the positive non-intervention liberal government policy has facilitated an open market and free trade structure which has attracted foreign and domestic entrepreneurs to invest and develop. The policy, that is free from intervention of London or the domestic political parties, emphasized faith in the market competition, free trade and free enterprise with the purpose of maximizing its income.

Throughout the history of Hong Kong, laissez-faire government policy and the stable economy have accounted for the rapid economic growth and development of the colony<sup>9</sup>. With liberal trade policies implemented, Hong Kong allows free passage of goods, capital, and people<sup>10</sup>. The Government adheres to a few policies: low taxation and surplus-prone budget, free trade and free movement of money and capital, and a 100% backed monetary system<sup>11</sup>. The absence of a central bank in Hong Kong, although the Hong Kong and Shanghai Bank acts as a *de facto* quasi-central bank of Hong Kong and the note issuing bank of Hong Kong<sup>12</sup>, the money supply is determined by the automatic operation of the market forces and of its foreign-asset currency system<sup>13</sup>. As a result of the loose legal framework adopted by the Government that has left Hong Kong governed by "the law of the jungle", the government monetary policy relies on the private sector<sup>14</sup>. The

management concept is based on the philosophy of self-support and the reliance of the private sector and market mechanism for the production of national wealth. Private initiative market forces are promoters of growth. The open opportunities for private ownerships provided ample flexibility and energy for businessmen and industrialists to further their investment.

The constitution of a market or a free economy is based on two principles. Firstly, there is a basic recognition and respect for the private ownership of property, and it is upon this recognition that the members in the society receive incentives for lucrative undertaking, so that further development and prosperity of the entire economic system may sustain itself on the collective force of these individual incentives. Secondly, the freedom of individuals to secure contracts between themselves is protected. This is one method to bar any clumsy interference from oriented to self-interest, and eventually it is supposed to result in free growth of the economy at large. In legal terms the sale and purchase of goods as well as the buying and selling of manpower represent no more than a type of contracting between the two sides involved. "It is the freedom of selling, purchasing, employing and working that gives a free economy its special characteristics; and these are the freedoms for consumption, for occupation, and for investment<sup>15</sup>." What has made Hong Kong unique and different from the NICs is its paragon of capitalist free trade with the laws of market free from state interference is consistent with the "Reaganomics" and the view

of the neoclassical economists<sup>16</sup>.

The Hong Kong government has adapted to the changing needs of the economy. According to economic commentators, Hong Kong is a self-regulating economy and has developed an "automatic corrective mechanism", a process that has "rooted in the essentially free market economy"<sup>17</sup>. Owing to the fact that Hong Kong lacks of internal resources and is heavily dependent on external trade, an automatic corrective mechanism is cultivated. This mechanism brings about internal and external equilibrium at all levels of trade and maximize economic growth by adjusting internal costs and prices according to the world's levels<sup>18</sup>. Economic correction is efficient because the economy has to be free to respond and adjust according to external price movement while the labor and capital are mobile. The open economy in Hong Kong is characterized by this mechanism which represents a neutral and responsible fiscal policy and the relationship between Hong Kong's money supply and the net balance of payments. With the implementation of the positive non-intervention policy, the government refrains from interfering with the market mechanism and will only do so if there is a clear cut market failure<sup>19</sup>. Government action is discretionary. It plays a decisive role, but acts and intervenes appropriately. Sir Philip Hadden-Cave, the former Financial Secretary, claimed that interventions are required in certain circumstances: Firstly, "in the case of enfranchised public utility undertakings in the private sector so as to ensure that they enjoy no more than a quasi-competitive return on

capital; and secondly, in the cases where industries have run into trouble or grown-up too fast for convention to take a grip<sup>20</sup>." The Government's role has evolved on an *ad hoc* basis while authorities claimed to have been moved from *laissez-faire* to "discreet guidance" of the economy<sup>21</sup>.

Hong Kong's economic achievement is also strengthened by the relative socio-political stability<sup>22</sup>. The economic performance of Hong Kong is higher in the economic areas than that on the social front<sup>23</sup>. Both the economy and the Chinese community were allowed a high degree of autonomy, with the market and social customs playing significant roles in regulating the economy and the Chinese community respectively<sup>24</sup>.

The growth of the Hong Kong economy over the years has been accompanied by various social, economical and political events occurred both internally and externally. There are general three types of disruptions: one is local social confrontations and discontents, the other is problems caused or induced by China, and the third is the effect of world economic cycles on domestic economy.

The economy had lived through a series of sociopolitical disturbances occurred domestically. In the celebration of the Nationalist Double Ten festival in 1956, anti-rightist political sentiments caused by disputes over national day decorations had turned into violence and resulted in riots in Mongkok District, Tai Hang Tung and other resettlement estates in Kowloon. Kowloon district was brought to a halt. The problem was short-lived and the investigation was weighed

towards the role of organized crime in the activities followed by the police cracked down on Triad societies. The banking crisis in 1965, the Star Ferry riot of 1966 resulted from a proposal to increase the fare on the Star Ferry which carries passengers between Hong Kong Island and Kowloon, the 1981 Christmas disturbance and the 1984 taxi riots, again had caused local economic setbacks but the economy recovered quickly<sup>25</sup>. In addition, the uncertainty of Hong Kong's future during the Sino-British negotiation period from 1982 to 1984 has led to a slower GDP growth in 1982 compared to the previous years. The GDP growth, however, have increased in 1983 and 1984 respectively despite the financial panic and devaluation of the Hong Kong currency against the US dollars caused by negotiation deadlock.

Using the words borrowed from Felix Patrikeeff, Hong Kong has the "willingness to endure disruption and to resume 'business as usual'" in a number of events incurred by problems in China<sup>26</sup>. In the 1920s, two major events were marked when the Nationalist led by Chiang Kai-shek launched the counterrevolution against the Chinese Communist Party in China: the bourgeois-democratic revolution and the revolutionary upsurge of 1925-27<sup>27</sup>. The later event was a racial confrontation, stemmed from a political movement against the privileged status of foreigners in China, that had emerged from the May, 1925 Shanghai general strike to the massacre of more than fifty demonstrators in Shanghai on 23 June, and then transformed into a Hong Kong-Guangzhou general strike focused on Hong Kong with a full boycott of British



goods accompanied by the withdrawal of Chinese workers from foreign owned companies<sup>28</sup>. Almost 15 months after the strike began, commercial and industrial activity that went into a halt began to recover, but slowly due to the political upheavals within China which reduced purchasing power even though imports from China remained high. Hong Kong was also able to adjust rather swiftly at the time when the Communist triumph their victory in China in 1949 together with the influx of immigrants from China from 1948 to 1951 due to the political situation. Almost a doubling of its population from 1938 to 1956, Hong Kong was able to absorb it at the same time when the economy transformed from an entrepot to an industrial economy.

Part of the account of riots occurred in 1967 was a Communist instigated disturbances which threatened the peace and stability of Hong Kong. The struggle developed from labor unrest on May Day in 1967 through to the end of the year when the Communists were convinced that their plan to disrupt the colony had failed but the tidal effects remained until January, 1968. In short-term, the effects were destroying of human life and property, held up traffic and projects and embarrassed police and public. The economy, however, came out of the disturbances almost unscathed and also stimulated in certain fields. Banking industry did not suffer even a certain amount of money had left Hong Kong as "flight of capital", but the amount of free currency in circulation fluctuated but remained steady<sup>29</sup>. Although an estimated 10% lost in tourism was reported, there was a total rise of 4.28%

of visitors in 1967 with 17.4% less time spent in Hong Kong. Just as John Cooper described, Hong Kong's industry has learned to accept disruptions. From May to October, there had been a steady 10% increase in domestic exports although trade with China had fluctuated over the same period. The overall export figures in 1967 showed an increase of 16.9% while import increased by 3.5% and reexport increased by 13.5%<sup>30</sup>. The Stock Exchange report fluctuations and reverberations coincided with the state of the economy and the stability of the political situation from May onwards until January 1968 when it appeared to be settled.

In the recent event of the 4 June Beijing Tiananmen Square incident in 1989, the economy experienced a short-term impact. Given the fact that the Hong Kong Stock Market lost one third of its value over three weeks in May and June and the deliberate withdrawal of the Bank of China Group of banks from the stock market<sup>31</sup>, the outlook improved considerably in July and August<sup>32</sup>. However, the recovery pace varied among the different sectors<sup>33</sup>. The manufacturing and trading sectors were not disrupted as compared to the tourism-related sectors. Residential and office property prices fell by an average of 20% during this period, however, by early 1991, the residential property market has showed a steady recovery<sup>34</sup>. Private consumption expenditure declined but maintained 3% growth whereas domestic inflation increased by around 10%. Imports grew at 9% but there was no growth in domestic exports. Conversely, re-exports have shown growth with an increase of 26% in value terms or 19% in real terms which has

exceeded domestic exports for the second consecutive year<sup>35</sup>. The financial sector remained stable as the US dollar exchange stayed the same and the Hong Kong dollar interest rates continued to stay close to the US dollar rate<sup>36</sup>. After all, the GDP growth rate in real terms increased 2.3% in 1989 following an increase of 7.9% in 1988.

Hong Kong is dependent on the external world and is susceptible to market fluctuations. It's economic conditions oscillate with the world economic climate, especially with the climate in US and in Europe. Similarly with other capitalist economies, Hong Kong also suffered from world-wide recession in 1974-5 with GDP growth rate at 2.2% and 0.2%. Economic recession of developed countries in 1980-82 slowed the GDP growth rate of Hong Kong to 10.9%, 9.4% and 3.0% respectively. The Stock Market crash on Black Monday, October 1987 did not impaired the GDP growth of 1987 which has reached 13.9% even though the Hong Kong had taken the decision to close its exchanges for 4 days with the resignation of the chairman and vice-chairman of the Hong Kong's futures exchange<sup>37</sup>. In the recent period of 1989-91, worldwide economic downturns have also brought the growth of the Hong Kong economy down to a relatively low level with the GDP growth rate standing at 2.3% and 2.4%<sup>38</sup>. Despite the fluctuations in oil prices during the Gulf crisis in 1991 which have added to the inflationary pressures that was generated domestically, the economy of Hong Kong remained stable and have showed an estimated growth of 4.1% in GDP<sup>39</sup>.

Nevertheless, the recovery of the economy of Hong Kong

after an economic setback has always been rapid (see Table A1)<sup>40</sup>. Economists claim that Hong Kong's economic accomplishment comes from its vulnerability<sup>41</sup>. Compared with the world economies, the size of the domestic Hong Kong market is small but strong and tangible enough to survive the recessions<sup>42</sup>. If improper manipulation occurs, the economy would suffer even more than those relatively close ones where a failure can be masked by and at least absorbed into the relatively large sectors not concerned with external trade.

Over the past four decades, Hong Kong maintained an substantial growth rate in the economy. The overall average growth rate averaged 10.3% from 1961 to 1970, 9.2% from 1971 to 1980, 6.6% from 1980-1990 and overall, it averaged at around 8% in real terms<sup>43</sup>. Compared the performance of the economic growth in Hong Kong from 1960 to 1981, it has been faster than that of the Western industrialized countries such as West Germany, the United States and the United Kingdom (see Table A11). In early 1980s, the growth in GDP averaged around 10 to 12% while the West was doing well, except for the time when the world economic downturn coincided with the uncertainty over the political future of Hong Kong<sup>44</sup>. During the period of 1975-1982, Hong Kong doubled its real output in less than eight years. Hong Kong also maintained an average growth rate of GNP per capita that exceeds 6.0% and its investment ratio is the fourth highest after Singapore, Saudi Arabia, Korea and before Lesotho<sup>45</sup>. It is also expected that the NICs will continue to grow at an annual rates ranging from 7 to 10% compared with about a 3% growth for the U.S.<sup>46</sup> Thus,

it is believed that the economy is shock-proof and its resilience enabled it to recover easily and swiftly as was put to the test in the early years<sup>47</sup>.

Hong Kong ranks high amongst the world's trading economies. In the last 10 years, Hong Kong's domestic export grew at an average rate of about 9% in real terms which was roughly twice that of the world's trade growth rate. Hong Kong's exports attract most-favored-nation (MFN) tariff treatment in the majority of overseas markets and is protected from discriminatory import restrictions under GATT<sup>48</sup>. Hong Kong enjoys no import tariffs and revenue duties are levied only on a small number of imported and locally produced luxury items such as cosmetics, tobacco, cars, beverage and liquors.

Interregional and intraregional trade with Hong Kong has grown over the years and has been significant for Hong Kong's economic growth. According to government figures, the total value of visible trade in 1989 amounted to 23.1% of GDP which comprised domestic exports, re-exports, and imports with a gross value of HK\$1,136 billion. Although domestic exports to the US fell to 29% in 1990 compared to 33% in 1988 and 32% in 1989, the US remains the largest market for Hong Kong. In the case of China, domestic export from Hong Kong to China rose by 8% in real terms while domestic export to the Federal Republic of Germany rose by 11%<sup>49</sup>. On the other hand, domestic export to United Kingdom has declined by 9% while domestic exports to Japan after several years of rapid growth, decreased by 8% (Table A5)<sup>50</sup>.

Characterized by the three features: "an insignificant primary sector; proportionally large industrial and commercial sectors; and an unusual degree of export-orientation in the manufacturing<sup>51</sup>." Hong Kong's tertiary services sector comprises almost two-thirds of GDP and 62% of the local work force<sup>52</sup>. The manufacturing sector contributes 22% GDP which accounted for almost 90% of total exports and 28% of total employment in 1990. In recent years, despite protectionism and its effects on the import of textiles and other manufactured goods into the US and elsewhere, the US Jenkins Act, for example, enforces a quota system on the amount of textiles exported from Hong Kong per year, the relevant industries responded and counteracted by changing production to other light industrial products. Diversification has kept Hong Kong ahead of world competition and continuing economic change. Hong Kong has increased its exports of more sophisticated products, leaving traditional exports to other lesser developed countries (LDCs) as comparative advantages change with economic development and slow growth in demand increase protectionism and more competition in export markets<sup>53</sup>. There is currently, however, a significant shift to service-oriented industries as the economic relations with China and the domestic and tourist related markets continue to grow<sup>54</sup>.

In 1990, the economy has undergone an adjustment process<sup>55</sup>. The overall economic growth was nominal continuing the cyclic downturn of the economy in 1989<sup>56</sup> which was reinforced by the events in China in May/June and the

adjustment of an economy operating close to capacity constraints after an extensive period of rapid growth in 1986-1988<sup>57</sup>. The growth rate in real terms of GDP was 2.4% in 1990 and 2.3% in 1989 as compared to the 7.9% growth in 1988. In the area of external trade, the value of domestic import increased by 1% over 1989. Re-exports increased by 20% in value terms and 16% in real terms while imports grew by 14% in value terms and 11% in real terms. Domestic demand also grew by 6% and the growth rate of private consumption expenditure was 4% in 1990. Unemployment rate remained low at 1.4% showing a general tight labor market while consumer price inflation, measured by the Consumer Price Index(A) rose by an average of 9.8% in 1990<sup>58</sup>. Preliminary figures for 1991 shows an estimated 4.1% of GDP growth with a 12% inflation rate and a 2% unemployment rate. For the first 10 months of 1991, an estimated increase of 0.5% growth of domestic export, 27% in re-export and 9% in retail sales are also shown<sup>59</sup>.

In short, the past economic performance of Hong Kong have been conducive to the adaptability of the economy, its dependence on external trade, the positive non-intervention government policy and the relative socio-economic stability of Hong Kong. All these are elements for the historical growth of the economy. The relationship between the government, private sector, and the historical background of the economy suggests to the author that the adaptability, stability and the resilience of the economy of Hong Kong is relatively strong enough to absorb shocks and fluctuations. Other factors influencing the future of the economy such as the

British responsibility on the territory, the China Factor and the local people have already discussed. The international business and economic climate will be further explored.

NOTES:

1. Hong Kong's rapid economic growth and industrialization progress started after 1951 with the decline in Hong Kong's entrepot trade role at the time when the Chinese Communist Party took control in 1949 and the outbreak of Korean War in 1950.

2. Walden Bello and Stephanie Rosenfeld, Dragons in Distress: Asia's Miracle Economies in Crisis, San Francisco: The Institute for Food and Development Policy, 1990, p.1

3. The population of Hong Kong was 1,800,000 in 1948, 1,857,000 in 1949, and 2,237,000 in 1950. The growth rate was 12.9% in 1947, 2.9% in 1948, 3.2% in 1949 and 20.5% in 1950 over that of 1949. David Lethbridge, The Business Environment in Hong Kong, Appendix 1.2, p.49

4. When the People's Republic of China was founded in 1949, Communist China traded with Soviet Russia and Eastern European countries instead of with the West and other parts of Asia. Because of this, Hong Kong lost its traditional importance as an agent of China's foreign trade. The outbreak of the Korean War in 1950 that led to the United Nations embargo in 1951 imposed on export of strategic commodities to China caused a dramatic fall in Hong Kong's trade with China. As a result, there was the significant decline in entrepot trade. *ibid.*, p.3

5. H.C.Y.Ho and L.C. Chau The Economic System of Hong Kong, p.3 referred to Chen, Edward K.Y. "Export-led Economic Development in Chinese Societies: the Existence and Transferability of the NIC model," paper presented at the International Symposium on Economic Development in Chinese Societies, Hong Kong, 1986

6. The Commonwealth Preference Scheme enabled Hong Kong's products to be more competitive in overseas markets and Sterling Area membership helped Hong Kong to have a stable currency.

Alvin Rabushka, Hong Kong: A Study in Economic Freedom, The University of Chicago, 1979, pp.22-23; David Lethbridge, The Economic Environment in Hong Kong, p.3



7. Alvin Rabushka, The Economic System of Hong Kong, pp.12-14
  
8. Alvin Rabushka, The New China: Comparative Economic Development in Mainland China, Taiwan, and Hong Kong, Boulder: Westview Press, 1987, p.162; Hong Kong 1991: A Review of 1990, p.63
  
9. The Financial Secretary Sir Piers Jacobs said at a conference on 31 March, 1985, "Our existing economic politics have served us well. As I have said, stable and consistent policies are necessary for the maintenance of confidence.....On all these counts there is a strong case for the present Administration not making major changes in the existing economic policies. Thus, I would suggest that the best indicators of future policies are present policies." S.H. Tang, "Symposium on Hong Kong's Economic Growth", Hong Kong Economic Papers, No.17, 1986
  
10. Hong Kong allows almost free movement of people until 1980. In 1980, Hong Kong government enforced the law that illegal immigrations would be resent back to the original countries. Local residents can travel in and out of the country without any restrictions as long as they hold a current passport or a Certificate of Identity with valid visas.
  
11. Cheng Tong Yung, The Economy of Hong Kong, p.32
  
12. Y.C. Jao, "Monetary Management in Hong Kong", *Singapore Banking & Finance*, p.50
  
13. The Exchange Fund managed by the government provides backing for the Hong Kong currency. Audrey Donnithorne, "Hong Kong as an Economic Model for the Great Cities of China", in A.J. Youngson, China and Hong Kong: The Economic Nexus, p.285; Theodore Geiger and Frances M. Geiger, Tales of Two City-States: The Development Progress of Hong Kong and Singapore, Washington D.C.: National Planning Association, 1973, p.12
  
14. Cheng Tong Yung, The Economy of Hong Kong, pp.28-30
  
15. *ibid.*, pp.28-29
  
16. Ronald Reagan, former US president declared in his 1985 State of Union address that "America's economic success...can be repeated a hundred times in a hundred nations. Many countries in East Asia and the Pacific have few resources other than the enterprise of their own people. But through free markets, they've soared ahead of centralized economies." Walden Bello and Stephanie Rosenfeld, Dragons in Distress: Asia's Miracle

17. The "automatic corrective mechanism" has been a recurring Theme in the Financial Secretary's speeches since the early 1970s. This mechanism "continuously alter internal costs and prices to bring them quickly into line with costs and prices, with associated changes in output and employment, brings about internal and external equilibrium at all levels of world trade, and maximum economic growth." Alvin Rabushka, Hong Kong: A Study in Economic Freedom, pp.2-9; Miron Mushkat, The Economic Future of Hong Kong, pp.7-9

18. If demand for products increase, there will be an increase in demand of labor, thus increase the cost and price of product. As people have more money to spend, the rate of imports will increase, while the rate of export will decrease as price of product will rise and become less compatible with that of the competitors. Economy will result in a deflation. *ibid.*, p.2.

19. Y.C. Jao, "Hong Kong's Future as a Free Market Economy", in Jurgen Domes and Yu-Ming Shaw Hong Kong: A Chinese and International Concern, pp.206-207

20. Cheng Tong Yung, The Economy of Hong Kong, p.33

21. Hong Kong authorities claimed to have moved from laissez-faire to 'discreet guidance' of the economy. Audrey Donnithorne, "Hong Kong as an Economic Model for the Great Cities of China", in A.J. Youngson, China and Hong Kong: The Economic Nexus, p.283, 285

22. "Hong Kong has overcome countless challenges, such as the triumph of communism in China, the influx of immigrants from the mainland, the various upheavals in the PRC, severe external recessions and price shocks, growing competition from other NICs and producers enjoying a greater comparative advantage in labor-intensive industries." *ibid.*, p.2

23. In a study performed by Khan and Zerby in comparing Hong Kong's socioeconomic development with 96 developing countries and 11 mildly developed ones, Hong Kong ranks seventh among 108 countries in the economic areas while in the social front, it ranks eleventh. Miron Mushkat, The Economic Future of Hong Kong, p.2.

24. *ibid.*, p.7

25. David Lethbridge, The Business Environment in Hong Kong, p.5
26. Felix Patrikeeff, Mouldering Pearl: Hong Kong at the Crossroads, p.28
27. The bourgeois-democratic revolution was also known as the "national revolution". Maurice Meisner, Mao's China and After, New York: The Free Press, 1986, p.20
28. It was all started when an anti-Japanese demonstration began in May, 1925 that has developed into a general anti-foreign one, and then changed into an anti-British demonstration because of the great preponderance of British commercial interests in China, particularly in Shanghai. Felix Patrikeeff, Mouldering Pearl: Hong Kong at the Crossroads, pp.26-27; Neigel Cameron, An Illustrated History of Hong Kong, Hong Kong: Oxford University Press, 1991, pp.229-231
29. The amount of currency in circulation in March 1967 was estimated at HK\$1,852 million and in July at HK\$2,554 million dollars. At then end of October, it dropped by HK\$170 million and another HK\$80 million at the end of November. It has been suggested about HK\$400 million left between the end of April and the end of July. *ibid.*, pp.273-274
30. John Cooper, Colony in Conflict, pp.270-272
31. The Hang Seng Index, which is a thermometer for the economy, plunged from a 1989 high of 3,310 points on May 15 by 339 points or 14% to roughly 2,800 on May 22, 1989. The Index recovered the following day fluctuating around the 3,000 points margin until June 4. The Index pushed down by 600 points to 2,049. Property prices, tourism troubles, sales dump were also notable after June 4. Jamie P. Horsley, "Echoes from Tiananmen: As 1997 Approaches, Hong Kong Grows More Sensitive to Events Across the Border", *The China Business Review*, September-October 1989
32. *Hong Kong Economic Indicators*, August 1989, No.71
33. Elizabeth Cheng, "Spend, Spend, Spent", *Far East Economic Review*, 1 March 1990
34. Michael Taylor, "Hong Kong Homes Market in Price Scare: Low-rise Apartments", *Far East Economic Review*, 23 May 1991; *Hang Seng Economic Monthly*, April 1991
35. The 1990-91 Budget: Speech by the Financial Secretary: Moving the Second Reading of the Appropriation Bill 1990, Hong Kong Government, 3 March 1990, pp.5-8, Elizabeth

Cheng, "Problems with the Neighbor", *Far East<sup>ern</sup> Economic Review*, 7 December 1989

36. There is a fixed exchange rate of US\$1.00 = HK\$7.8 since October 1983. Hong Kong: The Facts -- Financial and Monetary Affairs, September 1989

37. Futures exchange refers to the Hong Kong's futures exchange market. The chairman is Kim Cham and the vice-chairman is Ronald Li. After the resignation of these two men and in an effort to rescue the HK\$4 billion lifeline to the Hongkong futures market, the government has introduced the first HK\$2 billion tranche of the rescue package provided by the government and major institutions. John Mulcahy, "Mark of the Man", *Far East<sup>ern</sup> Economic Review*, 5 November, 1987, pp.70-71; Christopher Marchand and Philip Bowring, "Handle with Care", *Far East<sup>ern</sup> Economic Review*, 12 November, 1987, pp.80-83; Christopher Marchand, "Diplomatic Cover", *Far East<sup>ern</sup> Economic Review*, 26 November, 1987, pp.70-71

38. The GDP growth rate was 1.4 in 1966, 1.9 in 1967, 3.2 in 1968. The GDP growth rate was 2.2 in 1974 and 0.2 in 1975. The GDP growth rate was 10.9 in 1980, 9.4 in 1981, and 3.0 in 1982. The GDP growth rate dropped to a historical negative level to -0.1 in 1985. In 1989, the GDP growth rate was 2.3% in 1989 and 2.4% in 1990. Figures taken from Drysdale, Peter et al. Asia Pacific Profiles: 1991, Research School of Pacific Studies, ANU 1991; H.C.Y. Ho and L.C. Chau The Economic System of Hong Kong, Table 2.1, p.7; Hong Kong 1991: A Review of 1990, p.59

39. The inflation rate remained well over 10% in 1991 showing a rate at about 12%. Yang indicated that the factors supporting Hong Kong are still broadly intact placing the market in a good position to rebound after the Gulf Crisis is resolved. Eugene Yang, "Darlings of the Market: Looking Through the Crack: Hong Kong After the Gulf Crisis", *Executive*, November 1990, pp.92-93; *Hang Seng Economic Indicator*, August 1990, January 1991, December 1991

40. The GDP growth rate was 1.4% in 1966, 1.9% in 1967, 3.2% in 1968, but increased to 11.8% in 1969. The GDP growth rate was 2.2% in 1974 and 0.2% in 1975 but in 1976, it increased to 17.1%. The GDP growth rate was 9.5% in 1984, -0.1% in 1985, but in 1986, it increased to 11.9%. In 1987, it increased to 13.9%. See Table A1.

41. Hong Kong has to face the external climate because it is not cushioned from external forces through controls or tax restrictions. Moreover, as 90% of the manufacturing output is exported, the economic conditions are in rhythm with the US and European markets. Kevin Rafferty, City on the Rocks: Hong Kong's Uncertain Future, p.167

42. The recession of late 1973 through to 1975 induced a severe squeeze on costs and prices which led to a rapid and marked recovery in Hong Kong's competitive position in overseas markets. The elimination of inflation, a very large inflow of funds from overseas, yielded a surplus in the overall balance of payments in 1975. In 1976, the economy recovered briskly as outlined in Alvin Rabushka, Hong Kong: A Study of Economic Freedom, p.4

The recession of 1974-75 and the recession of 1982-83 both lasted for two years. In the first case, it was followed by six years of continued recovery. In the second case, however, not until after 1985 when the economy first experienced negative growth, the economy then revived and grew continuously from 1986-1988. Gavin Peebles, Hong Kong's Economy: An Introductory Macroeconomic Analysis, Hong Kong: Oxford University Press, 1988, pp.244-247

43. An estimate calculation was made from 1949 to 1990. Hong Kong Social and Economic Trends 1978-1988, Census and Statistics Department Hong Kong; 1991 Economic Prospects, Hong Kong: Hong Kong Government, March 1991, pp.50-51 (see Table A1)

44. There were four factors affecting the Hong Kong economy between 1981 to 1984: the depressed world economy since 1981-1982, the severe domestic crisis of confidence during the autumn of 1982, the substantial devaluation (US\$1/HK\$9.5) of the Hong Kong dollar as a result of a second crisis of confidence in September 1983, and the renewed strengthening in late 1983 of Hong Kong's main export markets. The first two had a negative impact on the growth of the economy, but the later two factors allowed for a short-term revitalization of the territory's economy. Henry N. Geraets, "The Economics of Political Dictates", in Jurgen Domes and Yu-ming Shaw Hong Kong: A Chinese and International Concern, pp.63-64

45. Gavin Peebles, Hong Kong's Economy: An Introductory Macroeconomic Analysis, p.61

46. Quoted from Walden Bello and Stephanie Rosenfeld, Dragons in Distress: Asia's Miracle Economies in Crisis, p.1, futurologist John Naisbitt, coauthor of the popular Megatrends 200, "Countries like South Korea ... Taiwan, Singapore, and Hong Kong have revolutionized the theory of economic development by showing the world how to skip over much of the industrialization phase and plunge into the information economy. They are expected to continue growing at annual rates ranging from 7 to 10%, compared with about a 3% for the U.S...."

47. Philip M. Harris, Manager Corporate Relations, Group Public Affairs Department of the Hong Kong and Shanghai Banking Corporation Limited said in an interview with the author in December, 1990 that the economy of Hong Kong has been able to recover

swiftly every time after a worldwide economic recession and any domestic events.

48. Hong Kong is a separate contracting party to GATT in April 1986, China and the UK signed memoranda to that effect. Sharon E. Ruwart, "Championing US Business Interests", *The China Business Review*, July-August 1990, p.48

49. Domestic exports rose to 8.0% in 1990 "Export to Germany: Growth Potential Ahead", *Hang Seng Economic Monthly*, June 1991

50. Domestic exports to Japan in 1989 grew at a significant value of 16%. Domestic exports to Japan decrease by 8% in 1990. Hong Kong Annual Report 1989, pp.58-59, Hong Kong 1991: A Review of 1990, p.60.

51. Nicholas Owen distinguished these three features of Hong Kong's economy that are different and unique compared with the other developing countries. Hong Kong Research Project, Hong Kong: A Case to Answer, U.K.: Spokesman Books, 1974, p.20

52. Lessons for other developing countries, H.C.Y.Ho The Economic System of Hong Kong, p.3

53. A.A. McLean, "Symposium of Hong Kong's Economic Growth", Hong Kong Economic Papers, No.17, 1986

54. Hong Kong 1991: A Review of 1990, p.56

55. After the strong growth during 1987 and 1988, the economy is still undergoing an adjustment process. It needed further adjustment in relation to domestic inflation. "Hong Kong's Economic Performance and Prospects", *Economic Report*, September 1990, The Hong Kong and Shanghai Banking Corporation Limited

56. Philip Bowring, "Hong Kong's Spending Spree is not What it Seems: Jacobs the Juggler", *Far East Economic Review*, 22 March, 1990, p.46, Elizabeth Cheng, "US dictates Downturn", *Far East Economic Review*, 10 December 1987

57. GDP growth in 1986 was 11.9%. In 1987, GDP was 13.8% while in 1988, GDP growth was 7.3%. Drysdale, Peter, et al. Asia Pacific Profiles: 1991, Research School of Pacific Studies, ANU 1991

The economy has been operated at capacity as seen by an unemployment rate below 1%

since late 1988. Stephen Vines, "Economic Slowdown - Providing a Welcome Breathing Space?" *Investors Chronicle*, 4 November 1988

58. Hong Kong 1991: A Review of 1990, p.59

59. *Hang Seng Economic Monthly*, December 1991

CHAPTER SIX

FOREIGN INVESTMENT

-- WITH SPECIAL REFERENCE TO JAPAN



## CHAPTER SIX

### FOREIGN INVESTMENT -- WITH SPECIAL REFERENCE TO JAPAN

"There will be endless opportunities for doing business and making money in Hong Kong. There are more than sixty years to go [the remaining ones of the British lease plus the fifty years that China has promised of self rule for Hong Kong]. If things are good, why should they not continue? I am fully confident I am doing business and the next generation will be doing business."

- Wang Guangying<sup>1</sup>

The economy of Hong Kong is dependent upon external trade. Continued interest in foreign direct investment will play a positive role in the economic growth and development of Hong Kong<sup>2</sup>. Intraregional investment is constructive and is mutually beneficial to both the host and the investor countries<sup>3</sup>. The persistent interest of Japanese investment in Hong Kong, moreover, is likely to inspire confidence and be conducive to the continual prosperity of Hong Kong between now and 1997.

What has maintained the growth of external trade and the level of overseas investment is the continual interest of the Japanese in investing in the colony. What is it about Hong Kong that has interested the Japanese continuing to invest in Hong Kong despite the "risk" of 1997? A survey conducted by the Hong Kong Industry Department reported that the majority of overseas investors considered Hong Kong's banking and financial facilities, infrastructure, government economic policy, business laws and regulations, corporate taxes, pegged exchange rate, availability of managerial and technical

skills, and labor productivity desirable for investment<sup>4</sup>.

Japan's direct investment in Hong Kong has reached a total of US\$36,130 million from 1951 to 1989 and MITI presented an overwhelming figure of around US\$4,000 million dollars of direct investment in Hong Kong alone in 1989<sup>5</sup>. In mid-1990, over 1,500 Japanese companies operate in Hong Kong. Japanese investments ranged from the manufacturing sectors, chain department stores, trading companies, banks, securities, construction companies<sup>6</sup>, to the purchase of land and property.

In manufacturing industries, Japan made the largest additional investment in 1988. The amount of Japanese investment in the manufacturing sector has outgrown that of the U.S. by almost 40% in the last five years and it is predicted that Japan will overtake the US within four years if the current trend continues<sup>7</sup>. The manufacturing industries that attracted Japanese investments are electronics, textiles and clothing, electrical products, and watch and clock industries. Figures provided by the Hong Kong Industry Department on the cumulative investment in Hong Kong manufacturing industries through 1989 indicated that Japan was behind only the U.S. in terms of total volume with HK\$8,642 million invested. Its stock of fixed assets at original cost was HK\$4,979 million and its gross additions to fixed assets were HK\$625 million. This accounted for 29.1% of the total foreign investment<sup>8</sup>. There were a total of 180 new Japanese investments in 1989, which is 26.8% of the total foreign investments. This is higher than the total amount of American

investment (21.9%) in Hong Kong. Among the new Japanese investments, over half of them (56%) were wholly-owned by Japanese interests, while about 39% were in joint-ventures with a local interest and 5% were joint-ventures without a local interest<sup>9</sup>.

In the property sector, Japanese investors spent more than HK\$22 billion from 1986-89, making Hong Kong the third largest recipient of Japanese real-estate investment in the world for the period, amounting to 74.7% of the total purchases from all foreign and domestic sources<sup>10</sup>.

Japan has the biggest foreign presence in Hong Kong's banking sector. The Japanese financial sector is attracted by the low tax system and high spread of regional lending in Hong Kong. Despite the slowdown of Hong Kong's economy in 1989, Japanese financial institutions were active. Japanese financial institutions in Hong Kong dominated the foreign-currency loan market accounting for 66%. On the other hand, Japanese banks continue to do business with Chinese-owned companies and to lend to Chinese entities in place of foreign banks which retreated from their commitments after the Tiananmen Square event. They also have to finance the activities of Japanese and local Hong Kong companies within the colony. In 1990, there are 31 Japanese licensed banks, 11 Japanese renamed restricted licence banks (RLBs) and 31 Japanese licensed deposit-taking companies (LDTCs) in Hong Kong. In total, Japanese-authorized institutions increased the total assets of the whole banking system from 45.6% in 1986 to 58.3% in 1990<sup>11</sup>. The data suggests that Japanese

institutions "are not too worried about the long-term future of Hong Kong as they always take a long view<sup>12</sup>."

Japanese investments aims at service-oriented industries. Over 40% of Hong Kong's retail department store businesses are owned by the Japanese compared to the 13% Japanese investment in the manufacturing sector. Japan's third largest store conglomerate Seiyu will enter Hong Kong's retail market when its \$100 million store opens in Shatin in October. This is seen as a "litmus test for further expansion plans abroad", said Shoichi Arai, the director of Seiyu (Shatin) Co. Ltd<sup>13</sup>. Kazuo Wada, the Chief Executive of Yaohan, a Japan medium-size department store, called Hong Kong "the centre of Asia" and has shifted the headquarters of his company to Hong Kong because of the considerable profit to be taken from the low corporate tax advantages of Hong Kong<sup>14</sup>. In addition, Yaohan relocated to Hong Kong so as make his long-term investment plans in China more possible<sup>15</sup>.

Japanese investors are interested in Hong Kong firstly, because of the consumption ability of 6 million Hong Kong residents. Secondly, the low taxation system is favorable for overseas investors. Thirdly, but one of the important reasons, Hong Kong's strategic location as an economic gateway to China and the potential of China's over 1 billion consumers offering a tremendous market that attracts abundant Japanese investors.

The Japanese perceives Hong Kong as the "headquarters to supervise manufacturing bases and an ideal location for coordinating marketing operations in China" generally<sup>16</sup>. Mr. Kitahara, general manager of Dai-Ichi Kangyo Bank, the world's

largest bank, has said that Japanese entrepreneurs are in Hong Kong because of China<sup>17</sup>. The Japanese have found that Hong Kong is a efficient regional and international port with its effective telecommunications network, transport system, cultural affinity, and its geographical proximity to Japan and elsewhere in Asia. Tomozo Morino of Japan External Trade Organisation (Jetro) said, "Hong Kong is very useful for trade with South China and with Southeast Asia as a whole<sup>18</sup>." Trade with China and other Southeast Asian countries is made easier given Hong Kong's role as an access point to China and a centre for the re-export of Japanese products. China is the largest re-export partner for Japan while Hong Kong is the second largest. Almost one third of the imported Japanese goods are exported from Hong Kong and more than 40% of exports to China are via Hong Kong.

Another reason why Japanese and other overseas investors are not afraid of taking the "risks" to invest in Hong Kong is because they believe that the Chinese government will not interfere with a third country's capital in Hong Kong or rather the HKSAR after 1997. If anything goes wrong with the business climate after the change of sovereignty, it is acknowledged that they can always bail out because they are foreigners.

The increase in economic ties between Hong Kong and Japan has given something of a confidence boost to Hong Kong's future. The financing of the building of additional terminals at the container port, as part of the PAD infrastructure project, on a US\$1.4 billion loan, underwritten by the

cooperation of 22 Japanese banks and 10 foreign banks in August 1989, is perceived as a longer term view of the future of Hong Kong by the Japanese<sup>19</sup>. Despite the fact that some commentators view Japanese investments as mobile and only available for short to medium term opportunities, Tokyo sees the need for "continual economic freedom and progress" in Hong Kong as "paramount<sup>20</sup>". The Japanese government believes that Japan can support Hong Kong's economic prosperity by delivering financial and commercial patronage and other forms of support to the colony so as to allow it to flourish in the future. Moreover, there is a need for the continual transfer of high-tech productions and technology from Japan as it will improve the efficiency and effectiveness of the businesses so as to allow Hong Kong to keep ahead of world competition.

The loss of confidence in Hong Kong has caused people, business and capital to move away. Some local businesses have moved their bases and re-registered elsewhere in the world. About 50,000 residents migrate every year, taking with them their bank accounts and assets. The financial vacuum being generated, however, is being filled by the ample investments of the Japanese as Hong Kong is the second-largest destination for Japanese investment in Asia and the fifth-largest market in the world for Japanese exports and other foreign countries<sup>21</sup>. In this way, not only are the Japanese gaining unprecedented amounts of local influence and prestige, but they also have created a booster effect for local confidence levels. An example was the sale of medium size apartments in mid 1990 of unfinished residential units in New City Plaza

III, Shatin, where Seiyu is located. Over six hundred units were sold within a day which reflected the fact that local Hong Kong residents are still willing to consume and invest in the colony.

Notwithstanding the fact that the Tiananmen Square event has impaired the economy to a small extent, investors are to look beyond the immediate political crisis engendered by it. The depression of stock and property prices post Tiananmen represented "a major buying opportunity as all the previous crisis of confidence in Hong Kong have turned out to be<sup>22</sup>." Other external conditions that favor Hong Kong have also eliminated fears and worries of businessmen to continue doing their business.

According to some investors, Hong Kong is still a favorable place to do business because of its business environment and domestic infrastructure<sup>23</sup>. Peter Lo, Minister for Office of Hong Kong Economic and Trade Affairs for the British Embassy in Washington, D.C., said that Hong Kong's trade with major markets, US, EEC, and other Asian countries such as Japan, Taiwan, South Korea, and Singapore has increased in the last 2 years<sup>24</sup>. Some examples of private investment in Hong Kong after Tiananmen Square event have shown that foreign interests in Hong Kong have gone back on the track: Citibank won a bid of US\$350 million on the largest site in the Central Business District to build one of its high-rise towers; Hong Kong International Terminals secured a US\$1.35 billion loan to construct two new container terminals in Hong Kong in the interests of U.S., Japanese, and

Hong Kong; and US West with Coditel of Belgium and a Hong Kong group won a bid for the franchise to build and operate the world's biggest cable TV network in Hong Kong at a cost of US\$700 million<sup>25</sup>. US continues to be Hong Kong's largest domestic export market despite the recession in the US and increased protectionism, which has weakened the economic growth between US and Hong Kong. It is also suggested that U.S. support for the free market integrity of Hong Kong and a limited U.S.-China Free Trade Area (FTA) for Hong Kong before 1997 would assure U.S. government and American business interests in Hong Kong after 1997<sup>26</sup>. Moreover, economists indicated that global forces will continue to govern Hong Kong's economic rhythm<sup>27</sup>. Foreign investors are not worried about Hong Kong's future because they can rely on their governments in the event when problems occur after 1997<sup>28</sup>.

In summary, the success of Hong Kong in its industrial development depends a great deal on the amount of foreign direct investment, through which "capital and technological know-how will be imported<sup>29</sup>." It has been stated that external trade and foreign investments are important for the economic growth and development of Hong Kong (Table A5)<sup>30</sup>. With the favorable conditions that the government has established by maintaining minimum intervention in economic and business affairs, local and foreign investors will continue to express their interests in Hong Kong. The absence of import tariffs, the capitalist nature of the market economy, the high productivity rates, and the mobility and flexibility of capital and the labor market provide a strong



basis for foreign investors to take on investment opportunities. Hong Kong has been known for short term investments and plans. Despite the 1997 issue, the short term economic outlook continues to be promising. What is left to discussed is the favorable geographic and strategic importance of Hong Kong and its international role in the Asia Pacific region.

NOTES:

1. Wang Guangying is a "red capitalist" Chinese investor in Hong Kong, cited in Kevin Rafferty, City on the Rocks, p.339
2. "Hong Kong Offers Good Investment Prospects, US Executives Told", *South China Morning Post*, 13 April 1990
3. Despite a decline in world trade and the increased extent of protectionism in most of the developed countries, intraregional trade has been increasing at a very rapid rate. Foreign direct investment or activities of multinational corporations have played a positive role in the economic development of developing countries in the Asian and Pacific region. Edward K.Y. Chen, "Hong Kong's Role in Asian and Pacific Economic Development", *Asian Development Review*, Vol.7 No.2, 1989, p.36
4. *ibid.*
5. One fifth of Japan's direct foreign investments in Asia is in Hong Kong which accounted for US\$8 billion. Dende Montilla "Japan's Big Push into Hong Kong", *Executive*, September 1990, Carl Goldstein and Rowley Anthony, "Japan Investment Boosts Hong Kong Confidence: Shogun Wedding", *Far East Economic Review*, 28 June, 1990, Chris Marchand, "US Still Leads, but Asia is Moving Up", *Far East Economic Review*, 3 December 1987
6. Examples of construction companies are Kumagai Gumi, Nishimatsu and Aoki. The construction of the Mass Transit Railway system was done by Kumagai Gumi.

7. Carl Goldstein, "Japanese Share of Overseas Investment Surges: High Stakes", *Far East Economic Review*, 28 June, 1990, p.71, Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1990, p.12, p.19

8. Figures provided by the Hong Kong Industry Department on the cumulative investment in Hong Kong manufacturing industries through 1988 indicated that Japan was behind only the U.S. in terms of total volume with HK\$6,950 million invested. This accounted for 26.6% of the total foreign investment in manufacturing industries. Figures are taken from table 1 of the Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1989, Hong Kong Government Industry Government, 1989, p.10; table 1 of the Report on the Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1990, Hong Kong Government Industry Government, 1989, p.12

9. There were a total of 170 new investments in Hong Kong in 1988, which is about 25% of the total foreign investments. This is higher than the total amount of American investment (23.3%) in Hong Kong. Among the new investments, over half of them (54%) were wholly-owned by overseas interests, while about 41% were in joint-ventures with a local interest and 9% were without local interest. Report on Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1989, Hong Kong Government Industry Department, p.18; Report on Survey of Overseas Investment in Hong Kong's Manufacturing Industries 1990, Hong Kong Government Industry Department, p.19

10. Carl Goldstein and Anthony Rowley, "Shogun Wedding", *Far East Economic Review*, 28 June, 1990

11. There was a total of 92 bank offices in Hong Kong of which 30 were bank branches, 37 were deposit-taking companies (limited service banks) and 25 were representative offices compared with the US which has 71 bank offices by the end of 1989. Carl Goldstein, "Japanese Share of Overseas Investment Surges: High Stakes", *Far East Economic Review*, 28 June, 1990, p.71; Y.C. Jao, "Monetary System and Banking Structure", in Sung and Lee, The Other Hong Kong Report 1991, p.166

12. This is cited according to Y.C. Jao's opinion. *ibid.*

13. Wudunn Sondra. "Seiyu Set to Enter Hong Kong Retail Market", *South China Morning Post*, 4 August, 1990, p.b-3

14. 16.5% corporate income tax is levied in Hong Kong compared to the 60% top rate in Japan.

15. "Yaohan Chief Shoots for High Rewards: Counter Move", *Far East<sub>er</sub> Economic Review*, 26 June, 1990, pp.72-73
16. Goldstein Carl, Rowley Anthony. "Japan Investment Boosts Hong Kong Confidence: Shogun Wedding". *Far East<sub>er</sub> Economic Review*, 26 June 1990 and Wudunn Sondra "Japanese Bullish on Hong Kong", *South China Morning Post*, 10 August 1990
17. Xavier, Gerry. "Japan Boosts Hong Kong Investment". *Hong Kong Standard*, 7 September, 1990
18. Carl Goldstein and Anthony Rowley, "Shogun Wedding", *Far East<sub>er</sub> Economic Review*, 28 June, 1990
19. James Boice of Wardly Capital Ltd. commented that the financing of this project is one of the biggest financing ever arranged in the territory. Together with Kazuo Wada of Yaohan International, they believed that it is the best time and a good bet to moved into the commanding heights of Hong Kong's economy while the steady decanting of the population through immigration. Charles Smith, "Tokyo Reminds China of Japan's Stake in Colony: Japan's High Profile", *Far East<sub>er</sub> Economic Review*, 9 November 1989, Dende Montilla, "Japan's Big Push Into Hong Kong", *Executive*, September 1990
20. Rowley, Anthony. "Softly-softly Approach on 1997 Question: Japan Whispers". *Far East<sub>er</sub> Economic Review*, 28 June, 1990, p.72
21. James Boice of Wardly Capital Ltd. commented that the financing of this project is one of the biggest financing ever arranged in the territory. Together with Kazuo Wada of Yaohan International, they believed that it is the best time and a good bet to moved into the commanding heights of Hong Kong's economy while the steady decanting of the population through immigration. Charles Smith, "Tokyo Reminds China of Japan's Stake in Colony: Japan's High Profile", *Far East<sub>er</sub> Economic Review*, 9 November 1989, Dende Montilla, "Japan's Big Push Into Hong Kong", *Executive*, September 1990
22. Hong Kong into the 1990's, Smith New Court Far East, Hong Kong 1990, p.3
23. Lee G. Lam, manager for International Telephone Services said that the Chinese culture values is a benefit of Hong Kong and he admitted that Hong Kong can also help the motherland as

Hong Kong is the nature gateway to the vast Chinese market. "Working at Success in a Changing Marketplace", *Executive*, May 1990.

24. Trade between Hong Kong and other major Asian markets has increased by 36%. Andrew B. Brick, "Post-Tiananmen Hong Kong: What Role for the United States", *The Heritage Lectures*, July 21, 1989, Washington D.C., The Heritage Foundation

25. David Wilson, "Hong Kong: Relation with China", *Vital Speeches of the Day*, Dec., 15, 1989 and Jane A. Morse, "PRC Expected to Keep its 'Two Systems' Promise" (660), October 16, 1989 *Congressional Report*, East Asia/Pacific Wireless File 192

26. Jeff Sexton, "Hong Kong 'Vital' to U.S. interests in Asia", *Congressional Report*, October 26, 1989, East Asia/Pacific Wireless File 200 and *Hang Seng Economic Monthly*, November 1990

27. Jesse Wong, "China Ties Bedevil Hong Kong Economy", *The Wall Street Journal*, Wednesday, October 4, 1989

28. Richard Chuang, "'Home' Insurance for British Nationals in Hong Kong?", *Asian Affairs: An American Review*, Vol. 17, No.1, Spring 1990, p.39

29. Kin-Chok Mun and Suk-ching Ho, "Foreign Investment in Hong Kong" in Lin, Lee, Simonis, Hong Kong: Economic, Social, Political Studies in Development, pp.278-279

30. See the Chairman of HKTDC, Lady Lydia Dunn's comments in *The Morning News* (Hong Kong), 5 January, 1991

CHAPTER SEVEN

INTERNATIONAL STATUS IN THE CHANGING WORLD

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### INTERNATIONAL STATUS IN THE CHANGING WORLD

"Hong Kong has grown to be both an international trading and financial centre and a place which provides a rewarding lifestyle for its people only by planning ahead and by meeting challenges and overcoming difficulties as they arise<sup>1</sup>."

- Sir Piers Jacobs

Hong Kong's strategic location in the Asia Pacific rim and its free and open economy allows the colony to maintain its vital role as China's "window on the world"<sup>2</sup>. It is at the heart of communications network of the region serving as a major financial center and an international port<sup>3</sup>. The importance of Hong Kong in the Asian-Pacific region as a financial, manufacturing and service center is indicative of the future development of China and other LDCs in the region.

The geographic and economic centrality of Hong Kong in East Asia promise it a major role in the region's continuing development. Hong Kong is the hub of communications and trade in Asia. The maintenance of Hong Kong's prosperity and stability will have regional and global implications. Ambassador Richard Williams of the US Department of State in the Heritage Lecture expressed US general interest in East Asian stability since the confidence crisis in Hong Kong could provoke a huge capital outflow, affecting the world economy, adding to the Asian refugee problem, and influencing the future of Taiwan<sup>4</sup>.

Hong Kong faces competition from other financial centers

in the region. It is believed that Hong Kong is not in the same confederation as Tokyo, which is a global as well as a regional financial center<sup>5</sup>. Competitive pressures have come from Singapore in terms of tax, freedom from exchange control, modern infrastructure and telecommunications, etc. Compare with Singapore, Hong Kong trails behind in forex, bond and futures markets but leads in loan syndication, fund management, gold trading and stock market turnover, capitalization and having a larger domestic banking sector which reflected a larger size of the economy<sup>6</sup>. Taiwan is another rival that Hong Kong may encounter. Taiwan's diversified economy has an annual growth rate of 8.9% between 1952 to 1989. It has the largest forex reserve in the world worth at US\$76 billion<sup>7</sup>. Apart from investing in infrastructure and increasing the educational level of the population, the financial sector is in the progress of restructuring as a plan of the Ministry of Finance for promoting Taipei to become an international financial center in the late 1990s<sup>8</sup>.

Hong Kong, however, still maintains a considerable advantage over Taiwan and Singapore as a financial center in the region in the following two respects. Firstly, its government overall economic policy is the most liberal and least interventionist in the whole Asian-Pacific region. Secondly, Hong Kong has a record in respect of "national treatment" in a nondiscriminatory fashion<sup>9</sup>. Hence, these advantages can contribute to maintain Hong Kong's status as an international financial center. In addition, it must thrive

to maintain its competitiveness in all other aspects, including a modern and efficient infrastructure.

Hong Kong has a well established infrastructure of banks, legal system, infrastructure and history in the region. Hong Kong Government seeks to promote prosperity in Hong Kong by advocating various infrastructure projects to sustain business interests, thereby, upholding the theme of economic prosperity with the top priority given to economic growth and money-making. Hong Kong Government planned to build the "Rose Garden", including a port and replacement airport development (PAD) in Chek Lap Kok which has an initial cost estimated at least \$127 billion<sup>10</sup>.

The PAD project is significant in reflecting the importance of the future of Hong Kong before and beyond 1997. PAD will be a major reinforcement of the economic momentum of Hong Kong and the international status of Hong Kong as a gateway to Asia-Pacific. This infrastructure project is planned to consolidate an image and posture that will prepare Hong Kong socially and economically into the 21st century. It promotes the continuation of economic, social and political development of Hong Kong. The building of the new airport will induce real short- and long-term economic benefits<sup>11</sup>. Within a month of the signing of the Memorandum of Understanding in July 1991, the stock market prices have been stabilized with a notable rise in the property market and a stable Hong Kong currency. The employment outlook will be tangibly better because the PAD project will involve an increase of employment opportunities for various types of



positions in every sector. In the international outlook, the PAD project is indicative to a continuation of foreign business interest in investing in Hong Kong. The increase of profile of the Lippo Group, a group of Indonesian financial institutions headed by Indonesian Stephen Riady, in Hong Kong's financial sector is an example of this<sup>12</sup>. The port section of the PAD project is important in reinforcing the entrepot role of Hong Kong for Southern China before 1997 and in transforming the city state into a Southern China port city after 1997<sup>13</sup>.

Other projects such as the reconstruction of old government housing estates and the introduction of Home Ownership Scheme and Private Sector Participation Scheme by the Housing Authority; the increase in technical education and vocational training courses and the building of the tertiary education institutions such as the University of Technology of Hong Kong; the transport infrastructural development in light rail system and road and tunnel constructions; the promotion of health knowledge, the expansion on health care system and introducing more hospital beds; the plans for improvements in social security, services for family and child care, children and youth, and for the elderly and the beautification of the environment etc. are also in progress to constitute a pleasant living environment to improve the quality of life and an attractive place for business practices to improve profit making opportunities.

Despite some Hong Kong companies and enterprises have moved their bases away to other countries such as Bermuda and

Cayman Islands where tax-free conditions are favorable while other companies sold part of their share to overseas companies<sup>14</sup>, Hong Kong continues to remain as the top choice for regional headquarters locus among overseas companies because of the "international comparative advantages"<sup>15</sup>. Multinational companies (MNCs) located to Hong Kong as their headquarters are driven by the factors such as the relative freedom of entry and exit, excellent communications with all states in the region, the availability of English-speaking staff, its Western system of commercial law, its geographically strategic location<sup>16</sup>, its banking and financial services, infrastructural facilities, low corporate taxes, and Hong Kong's role as a gateway to business with China<sup>17</sup>. American companies favor Hong Kong as a base as they believed culturally, historically and in business, it is "something of an American outpost"<sup>18</sup>. Even though the manufacturing industries in 1980s was stagnant due to rising costs, Hong Kong's economy was boosted when MNCs used Hong Kong as a base for activities in China. In a Department of Industry survey at 2,310 overseas companies operating in Hong Kong, about 25% were identified as having their regional headquarters in the colony<sup>19</sup>. T.H. Barma, the Director of Industry, indicated that the number of overseas companies establishing regional headquarters in Hong Kong is evidently greater than the number moving regional operations or headquarters to other cities in the region. Overseas firm which decided to establish new regional headquarters in the territory were not deterred by the Tiananmen Square event. 22 overseas firms were

established in the second half of 1989, 18 established during the first three months of 1990, and 43 others indicated plans to set up regional headquarters in Hong Kong<sup>20</sup>. International market forces are dominant in driving MNCs to utilize Hong Kong as a base providing that the economy is open and the lack of protectionist orientation. In addition, Hong Kong has a substantial amount of financial resources backing that is relatively better other Asian countries. If Hong Kong's attempt in becoming the "Teleport" of the Far East, other MNCs currently based in Southeast Asia countries will consider to establish or to transfer their Asian headquarters to Hong Kong, which will, as a result, consolidate the future status of the territory as a major international financial city with a favorable infrastructure to attract further investments.

Hong Kong has gone into a post-industrial state. Manufacturing and production is altering from low cost domestic consumer products into high-tech products and value-added goods to gain competitiveness in the market. Hong Kong businesses are forced to become more diversified and global in their orientation. Business enterprises are looking for new and potential markets in an advantageous profitable economic environment to broaden its trading activities. With the US imposing various quotas and import restrictions on overseas products and a slowdown in economy, Hong Kong needs to reduce its dependence on the US and shift its attention to other potential markets<sup>21</sup>. The break down of barriers into Eastern Europe has opened an untapped market, the end of the Gulf War, and the opening up of China represent market opportunities for

Hong Kong's valiant entrepreneurs as Hong Kong's economy expands internationally. In 1989, Hong Kong's exports to Eastern Europe and the Soviet Union in absolute terms is HK\$2.37 billion. Total exports to Eastern Europe grew by 7% in the first ten months of 1990 while total exports to the Soviet Union grew by 69%<sup>22</sup>. The Hong Kong Trade Development Council (TDC) market report on Yugoslavia indicated that domestic exports increased 89% (HK\$71 million) in 1989 and a further 257% (HK\$147 million) in first nine months of 1990<sup>23</sup>. The growth of Hong Kong's domestic exports to Germany, for example, has significantly increased from 6.2% in 1985 to 8.0% in 1990 and in re-exports, it climbed from 1.5% to 5.7% during the same period<sup>24</sup>. In addition, in the Middle East, the reconstruction of Kuwait also represents a lucrative market to be developed.

Hong Kong is transforming into a service oriented center, rather than the traditional manufacturing industrial city. Services already accounted for 60-65% of GDP<sup>25</sup>. The leading position of the service sector comprises of wholesale and retail industries, import/export trades, restaurants and hotels, transport, storage, communications, financing, insurance, real estate and business services. GATT's 1988/89 report on International Trade indicated that 25% of merchandise trade is the exports of commercial services. The services sector is a major determinant of competitiveness and it is vital to Hong Kong's export trade activities<sup>26</sup>. This sector has enabled Hong Kong to gain a substantial amount of net inflow on top of the real visible trade surplus. The

services sector has also served as a cushion against accelerated outflows of personal wealth which occurred in 1982-83, after Tiananmen Square event, and from the people migrated overseas in the past years. Since the Hong Kong dollar is pegged to the US dollar, the impact on Hong Kong's open economy of huge swings in currency values is limited<sup>27</sup>. Hence, even when the confidence level slumped, there was no pressure in causing a fluctuation of exchange rates.

The economic structure of Hong Kong is changed in order to make it more competitive in the global market. There is a shift in labor pattern and different type of workforce and production lines and a shift from manufacturing to service-oriented industries. The pattern of shift from Hong Kong economy to Hong Kong-Guangdong economy, which is a more export-oriented economy, as well as a shift from overseas investment to Chinese investment indicate a further growth of the Hong Kong economy as the nexus developed.

What is important about Hong Kong is the situation of decolonization it soon faces and the resumption of China's communist rule in the colony in 1997. The prime factor in keeping a good economic relationship between Hong Kong and PRC will be a mutual accommodation and tolerance based on appreciation of legitimate difference between capitalist enclave and the socialist mainland<sup>28</sup>. As mentioned in the previous chapters the interdependence between the Chinese and Hong Kong economy and foreign investments play a major role in the Hong Kong economy. Another factor to the future of Hong Kong is the question of whether or not China will continue to

open up and implement its modernization plans. Hong Kong is an important port in South China. China needs Hong Kong to industrialize, expand, and open up new coastal cities. Production has moved northwards from Hong Kong into South China, and into Southeast Asia where labor and cost is cheaper such that products will become more competitive in the markets. It is beneficial to Hong Kong to export its labor-intensive industrial plants to South China and then concentrate human resources on the development of its own financial, communication and services industries. Annie Wu, director of the World Trade Center Association, believed that considered the areas of financial system, communications technology, transportation and shipping and foreign associations, Hong Kong is in a more advanced status than China, which will perfectly fill the gaps that China needs; thus the need for Hong Kong existence will still prevail<sup>29</sup>.

Statistics in trade has reflected that re-exports are growing by leaps and bounds while there is a slowdown in domestic exports which indicates the growing transformation of the Hong Kong Chinese economic nexus (see Table A5). The reemergence of the traditional function of Hong Kong as an entrepot has launched the Hong Kong economy on a new reform in assimilating the Chinese economy and transform it into a "Hong Kong Guangdong" economy or what Tony Fung, Chairman of Sun Hung Kai & Co. Ltd. calls the "Pearl River Delta Alliance"<sup>30</sup>. Fung suggested that Hong Kong should sustain the role of the "Number One Son" in the region provided that Hong Kong continues to be the regional center of financing and trading

services as well as the focal point of sophisticated infrastructural facilities which has contributed to the economic success and self-reliance of the small economy. Fung was among a coalition of local prominent business participants and civil leaders who established the Hong Kong Economic Survey Limited (HESL) to identify challenges facing the territory's economy in the 1990s and strategy for the future. Headed by Veronica Wu, the Steering Committee of HESL commissioned Stanford Research International to conduct a study on Hong Kong economy and its future prospects. "Tasks for the 1990s" was a strategy developed to build and prepare Hong Kong for a shared economic future in the 21st century which has an extensive coverage on the prospects for a future mutual alliance between Hong Kong and the Pearl River Delta<sup>31</sup>. He believes that the business and economic cooperation between the mainland and Hong Kong will transcend any problems generated by political issues and questions of ideology<sup>32</sup>. With the increase in the Hong Kong industrial activities taking place in Southern China and the significance of service-oriented industries in Hong Kong to the overall growth of the economy, this cooperation will evolve the Hong Kong economy to become more regionalized.

Moreover, China will still need Hong Kong as a base for the development across the Taiwan Strait. The Taiwan factor has been one of the interesting aspect of which the proponents of the Hong Kong-South China scenario have considered. It is believed by experts that working with the economic region in south China will prove attractive and relevant to Taiwan.

With Taiwan's close economic ties with Fujian province, in particular the city of Xiamun, it is possible that Taiwan will become integrated within the South China region, creating a Greater China<sup>33</sup>. In addition, reunification of China is the issue that China plans to work on after resuming sovereignty over Hong Kong in 1997 and Macau in 1999. If the "One country, two system" principle is successfully implemented in Hong Kong, it will be used as a blueprint to be used for Taiwan in the process of the unification of China<sup>34</sup>.

Domestic advantages of Hong Kong will continue to sustain its status in the international business arena. The Hong Kong government has maintained a favorable economic environment to intrigue continual international interests. Peter Lo, Minister for Office of Hong Kong Economic and Trade Affairs for the British Embassy in Washington, D.C., in the Heritage Foundation Lecture said that the turmoil in China would not alter Hong Kong's status as a financial center because of its business advantages in low taxation, absence of exchange control, and a positive noninterventionist government policy<sup>35</sup>. Barrie Wiggham, secretary-general in the Hong Kong Government, emphasized that Hong Kong will maintain the status of a free port and a separate customs territory. He said Hong Kong will retain the essentials of its economic success: its own capitalist lifestyle and business systems<sup>36</sup>. Lee G. Lam, manager for International Telephone Services said that the Chinese culture values is a benefit of Hong Kong and he admitted that Hong Kong can also help the motherland as Hong Kong is the natural gateway to the vast Chinese market<sup>37</sup>. The



attractiveness of the economy has yielded a positive image in the international business arena. In particular, as Hong Kong diversified and internationalized, the growing competitiveness of the economy appears to be profitable and stable for international markets as perceived by major market competitors.

In addition, Hong Kong's lifeline is dependent on the international agreements and organizations that are involved. To shape the present and future conduct of external relations of Hong Kong, a significant network of international rights and obligations (IROs) is maintained to ensure Hong Kong's continual growth as a commercial center and its international links both before and after 1997<sup>38</sup>. This includes about 300 international treaties, accords and 160 bilateral agreement entered into by Britain<sup>39</sup> that are applied to Hong Kong, e.g. International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT), and the Asian Development Bank (ADB). It is important to maintain Hong Kong as a separate entity after reverting to China in order to maintain Hong Kong's role in some of the international activities that China is not a participant, an example would be GATT<sup>40</sup>. An agreement was reached on the continuation of some 30 of the IROs. Besides, there is a need to maintain and improve public services, communications, port and harbor facilities efficiently and effectively to compensate for Hong Kong's comparative high wages compared with other nearby Asian countries<sup>41</sup>.

Hong Kong's role in the region is highlighted by

enhancements in intraregional trade and investment. It serve as an agent for technology transfer, in subregional division of labor, economic diversification, and specialization in the services sector<sup>42</sup>. In summary, the advantages of Hong Kong will help to compensate for the uncertainties it is facing at present. In order to maintain its international position in the competitive world, Hong Kong has to protect its investment and production lines. The sprouting of competitive Third World producers has induced a reorientation of the market strategies. Hong Kong could also become vulnerable to buyers and competition from neighboring countries. In order to advance and sustain the current performance in the economic and financial sectors, Hong Kong has to keep an eye on the international political and economic climate; continue to look for improvement; change the efficiency and effectiveness of work; and to import world market news and information via high-tech technology<sup>43</sup>. As a result of economic diversification and specialization in service sectors developed, Hong Kong will have a more balanced economy which will make better use of its valuable assets to face market competition and challenges in the Southeast Asia region and in the world.

NOTES:

1. The 1990-91 Budget: Speech by the Financial Secretary, Moving the Second Reading of the Appropriation Bill, 1990, p.3

2. *Hong Kong Economic Indicators*, Hong Kong Standard Chartered Bank, August 1989 No.71

3. Hong Kong has the second largest container port in Southeast Asia. The PAD project will be an enhancement of the current status. What Future for Hong Kong's Container Port, Hong Kong: Crosby Research, March 22, 1990

4. Premier Yu announced in 1986 that when necessary, the ROC government could adopt flexible, expedient measures to help professional people from Hong Kong to go to ROC. ROC has put full efforts into helping maintain the freedom of well-being of people of Hong Kong. If Beijing's plan is to transplant the "one country, two system" formula to Taiwan, it would be unreasonable and impossible as Taiwan is different from Hong Kong. ROC is an international judicial entity and it has an independent government with sovereign rights and a sufficient defensive capability. Yu-Ming Shaw "An ROC View of the Hong Kong Issue" in Jurgen Domes and Yu-Ming Shaw Hong Kong: A Chinese and International Concern, pp.101-102, p.105

5. Y.C. Jao, "Monetary System and Banking Structure" in Sung and Lee, The Other Hong Kong Report 1991, p.167

6. Y.C. Jao, "Monetary System and Banking Structure" in Sung and Lee, The Other Hong Kong Report 1991, p.167

7. *ibid.*

8. *ibid.*

9. "National treatment" forms part of the "nondiscrimination" principle, the other part being the "most favored nation" (MFN) clause. The concept was first embodied in the 1947 GATT, means that foreign goods, once through customs, are subject to no taxes or regulations more onerous than those on equivalent domestic goods. The concept is then extended to the fields of foreign investment, banking and finance. It does not segregate the onshore market, or Hong Kong dollar denominated financial transactions, from offshore market, or foreign currency denominated financial transactions. Any foreign financial institution, once admitted, can engage in both onshore and offshore, as well as local currency and foreign currency denominated business, on the same footing with domestic institutions of domestic financial institutions. Hong Kong also applies its authorization policy flexibly, so that even if a foreign banks fails the minimum asset test - now US\$14 billion - it may still be licensed if it is of undoubted standing. *ibid.*

10. The Chinese and Hong Kong Government signed the appendix of the PAD agreement. Sandra Bucovaz "Infrastructure: Massive Transport Network to Boost World Trade in '90s", *Hong Kong Trader*, May 1990, No.49; *Sing Tao Jih Pao*, Australian Edition, July 6-7, 1991, p.2

11. "Peking's revenge", *Far Eastern Economic Review*, Editorial, 18 July 1991

12. The Lippo Group, headed by Stephen Riady, is a powerful Indonesian corporate and financial empire. Lippo has changed from retail banking into merchant banking, and plan to move into private banking. There are 6 institutions established in Hong Kong at present. Lippo has funded Pacific Concord, a Hong Kong listed company led by Wong Sai Cheung, which developed retail techniques and products market to Lippo's home country, Indonesia. Michael Taylor, "The Lippo Link", *Far Eastern Economic Review*, 14 March 1991; Gerald A. Delilkhan, "Lippo Group Sharpens its Profile in Hong Kong", *Executive*, August 1990

13. The port section of the PAD project amounts to 30% of the HK\$127 billion total cost. Westlake, Michael, "Political Thaw Clears Way for Hong Kong Cargo Plan: Port Out of a Storm", *Far Eastern Economic Review*, 18 July, 1991

14. According to the *Hong Kong Business Annual 1991*, there are 99 Hong Kong companies incorporated overseas as at October 9, 1990. 65 out of the 99 companies listed with Bermuda as the place of incorporation. These companies included Chevalier International Holdings Ltd., Evergo International Holdings Company Ltd., China Entertainment and Land Investments Holdings Ltd., Great Eagle Holdings Ltd, Hong Kong Land Holdings Ltd., Jardine Matheson Holdings Ltd., Sing Tao Holdings Ltd., and others. Other companies are bounded to be listed in a place where its parent company is incorporated, such as Cable and Wireless PLC incorporated in United Kingdom and FAI Insurance Ltd. incorporated in Australia.

The Hong Kong and Shanghai Bank also announced in December 1990 that it has become a British holding company incorporated in Britain. Philip M. Harris, Manager Corporate Relations, Group Public Affairs Department, The Hong Kong and Shanghai Banking Corporation Limited in an interview with the author on 20, December 1990 indicated that the Bank is not retreating from Hong Kong. It is doing the same thing as other major banks in the world of establishing branches with a holding company incorporated in the original country of the bank. The move made by the Hong Kong and Shanghai Bank does not indicate that the bank is lack of confidence in the

colony.

15. Danny K.K. Lam, "Independent Economic Sectors and Economic Growth in Hong Kong and Taiwan, *International Studies Notes of the International Studies Association*, Vol 15, No.1, Winter 1990

16. *ibid.*

17. "Hong Kong will Remain US Outpost", *Hong Kong Standard*, 19 August 1990

18. "Hong Kong will Remain US Outpost", *Hong Kong Standard*, 19 August 1990

19. Divina Yumol, "Hong Kong Still Favourite Regional Base", *Hong Kong Standard*, 28 August, 1990

20. *ibid.*

21. The growth rate between Hong Kong and US has moved out of phase since 1985. Between 1970 and 1988, the growth rate pattern between Hong Kong and US has been in a synchronous mode - the growth rate increase in a similar increasing and decreasing pattern. Until 1985, Hong Kong growth rate was around 0% while the US one was around 3%. In 1986, Hong Kong's growth rate increased by 12% while US growth rate was only around 2-3%. Hong Kong Into the 1990's, Smith New Court Far East, Hong Kong 1990, p.5

22. "Exports to Germany: Growth Potential Ahead", *Hang Seng Economic Monthly*, June 1991

23. "Beating A Path to Eastern Europe", *Executive*, March 1991

24. "Exports to Germany: Growth Potential Ahead", *Hang Seng Economic Monthly*, June 1991

25. Hong Kong 1991: A Review of 1990, pp.57-58, Hong Kong: Country Economic Brief, Australian Department of Foreign Affairs and Trade, September 1989, p.2

26. The following statements are quoted from Hong Kong Into the 1990's, Smith New Court Far East, Hong Kong 1990:

- "If industrial firms cannot produce necessary services competitively in-house, or if they are forced to pay above world market prices for service inputs purchased on the local market, they will be at a competitive disadvantage in the international market place."

- "In a world economy in which the level of technological sophistication is continuously rising, access to competitively-priced producer service is increasingly important in determining the ability of firms to compete at home and abroad."

- "The greater the availability, the lower the costs of the needed services, the faster the pace of globalization of markets. Thus, while there are many factors behind the growing emphasis on global markets and the declining importance of national boundaries for many productions, it is clear that technological advances in services are playing a pivotal role."

27. Philip Bowring, "The Basket Case", *Far Eastern Economic Review*, 6 December, 1990, p.58

28. Miron Mushkat, The Economic Future of Hong Kong, p.72

29. "The Third Generation Indigenous Hong Kong Wealthy Class", *Fresh Magazine*, 27 February. 1991, No.500, pp.86-87

30. *ibid.*, pp.34-35

31. The HESL's strategy identifies three major initiatives. These are:

a. Establish an Economic Development Board to create a new partnership between Hong Kong government and business to promote a more strategic approach to the development of our economy and the "soft" human resources and technology infrastructure,

b. Establish an International Business Roundtable to promote an aggressive global economic outreach to ensure strong trade and investment links to the world economy and

c. Create a non-governmental Hong Kong-South China Economic Cooperation Association to promote cooperation between Hong Kong business and enterprises in China to build a mutually beneficial economic relationship.

Gerald Delilkhan and Dermot Tatlow, "A Gambit to Underwrite Hong Kong's Future", *Executive*, July 1990, pp.34-35

32. Gerald A. Delilkhan, "Towards 1997: Being Partners not Partisans", *Executive*, April 1991

33. Gerald Delilkhan and Dermot Tatlow, "A Gambit to Underwrite Hong Kong's Future", *Executive*, July 1990, pp.33-35.

34. Yu-Ming Shaw, "An ROC View of the Hong Kong Issue" in Jurgen Domes and Yu-Ming Shaw Hong Kong: A Chinese and International Concern, p.105

35. Andrew B. Brick, "Post-Tiananmen Hong Kong: What Role for the United States", *The Heritage Lectures*, July 21, 1989, Washington D.C., The Heritage Foundation

36. *Asia Today*, April 1990, pp.10-11

37. "Working at Success in a Changing Marketplace", *Executive*, May 1990

38. Brian Hook, "The External Relations of Hong Kong", in Sung and Lee, The Other Hong Kong Report 1991, p.509

39. Frank Ching, Hong Kong and China: For Better or Worse, p.74

40. China is a member of GATT's textile committee but not a member of GATT. *ibid.*

41. N.J. Miners, "Government and Politics" in David Lethbridge The Business Environment of Hong Kong, 2nd Ed., p.119

42. Edward K.Y. Chen, "Hong Kong's Role in Asian and Pacific Economic Development", *Asian Development Review*, Vol. 7 No.2, 1989

43. Technology has become a competitive weapon for it determines how competence the multinational companies can be on a worldwide basis. Hong Kong's future status will be for

advance computer and other technology access. Dermot Tatlow,  
"Hong Kong Faces Squeeze on High Technology Access",  
*Executive*, February 1990



CONCLUSION

## CHAPTER EIGHT

### CONCLUSION

Hong Kong has had the "best of the two worlds in one house" for over one and a half centuries<sup>1</sup>. It has achieved industrialization with high rates of economic growth and political stability under a pattern of colonial rule<sup>2</sup>. Although critics have been skeptical and cynical about Hong Kong's economic ability to overcome the 1997 question, historically, "Hong Kong has demonstrated its flexibility and resilience<sup>3</sup>." Hong Kong suffered from a number of recessions in the past 40 years caused by internal and external events or worldwide economic downturns, the economy, however, rebounded to greater heights of prosperity each time afterwards. Its economic advantages in a laissez-faire government and excellent infrastructure outweigh other factors such as labor costs and labor shortages, high rent, and political uncertainty. Moreover, Hong Kong has been buffered from political problems in its neighbor, China. Felix Patrikeeff has pointed out that Hong Kong's success to date "has rested on its being able to maintain its separate identity; to have been able to tap the Chinese hinterland, and at the same time maintain a healthy distance from the turbulent politics of that country<sup>4</sup>". The economic importance of Hong Kong to China and vice versa will continue to remain important for Hong Kong's continuation as a financial center, service center and regional base. Migration and capital flight have been a long-term practice in Hong Kong and the scale of them have

intensified since 1983. Labor shortage will not be a problem, yet the perceived brain drain problem is being balanced by the brain gain process. Returning emigrants, expatriates and legal Chinese immigrants are adding to the population, which will increase the supply of the workforce. The Government has also relaxed control on the importation of foreign skilled labor from China and Southeast Asian countries to take on contract positions primarily in the labor-intensive industries to supplement of the loss of domestic labor. As the British are gradually withdrawing from the territory, Hong Kong is to become more internationalized to keep itself in the "leading edge" of the Asian-Pacific development.

In addition to the optimistic view on the future of Hong Kong, there are also some areas of doubt. The actual implementation of the "one country, two system" formula still has a long way to go. Deng Xiaoping, the father of the "one country, two systems" formula, claimed, at public appearances during the Sino-British Negotiation period, that he would like to have the chance to witness the historic "changing of the guard" and to see how the formula will be set in motion in Hong Kong. Deng is already 86 years old. He may still be alive in 1997 but, if the transition comes after his death, commentators believe that the implementation of the "one country, two systems" formula would have to be challenged under the ruling of Deng's successors<sup>5</sup>. The assumption that Deng's successors and future PRC policymakers will strive to guarantee the success of the formula, on the grounds that it serves the nation's interest, is not entirely valid. It is

suggested that top cadres on the mainland subscribe to different conceptions of the national interest and are, in any event, often propelled by motives which do not concern the well-being of the nation<sup>6</sup>. Hence, the development path towards the implementation of China's concept on Hong Kong is likely to be challenged.

The future domestic political stability of PRC, on the other hand, will determine the stability of Hong Kong. Martin Lee is one of the outspoken people who show a high degree of mistrust of the Chinese Government. Events happened in China over the century have imprinted on the minds and hearts of local residents, especially for those who fled China after the Communist victory in 1949 or during the periods of political turmoil. Residents' willingness to put their future under the hands of a previously unacceptable government will continue to be an uncertain parameter in determining the confidence of local residents towards the 1997 issue. The trustworthiness of the Chinese Government's promises is a test of faith<sup>7</sup>. The Tiananmen square incident in 1989 highlighted the question of China's trustworthiness for the general public of Hong Kong. During the Gulf crisis, Hong Kong's reliance on the Chinese Government was increased because of China's assertiveness in supplying Hong Kong with oil and daily necessities and China's efforts to help stranded Hong Kong residents to leave the war zone<sup>8</sup>.

In contemplating the future domestic stability and prosperity of Hong Kong, factors involving the representativeness of the HKSAR government system, the

maintenance of status quo, the maintenance of favorable business policies and conditions are some essential determinants. It is, however, both the economic performance and political developments in China that are tied to the economic prospects and solutions to its problems in Hong Kong. The Financial Secretary, Sir Piers Jacobs, is confident that the fundamentals to sustain a sound and growing economy are either in place or will be maintained. These measures include: the continual support of free trade and free enterprise; non interference by the Government in private sector, except where absolutely necessary; maintenance of a first class infrastructure and low corporate and incomes taxes and sustaining the programme recently announced to expand education at the tertiary level to meet the demand caused, not only by emigration, but also by the changing structure of the economy in which the service sector is gaining prominence<sup>9</sup>. In the public sector, the government is anticipating privatization schemes and commercializing a range of public services with the adoption of "quasi-market" mechanisms, to enhance the efficiency of the economy and facilitate its growth<sup>10</sup>. It is anticipated that the Government will to be more willing to take actions to stabilize the economy in the face of cyclical fluctuations and to regulate the financial sector more closely, since it is less vulnerable to abuses and shocks.

The focal point of political change of Hong Kong in 1997 is dependent upon the future development of Sino-British relations and the Hong Kong people's willingness to face

upcoming challenges. Cooperation between Britain and China will be needed to facilitate a smooth transition. A better Sino-British relationship in the coming years will benefit the future of Hong Kong in all aspects<sup>11</sup>.

During the 50-year transitional period, the extent of fulfillment of a "representation government" and self-governing framework will be obscured by various types of domestic obstructions, some of which are already in evidence. The political and economic development, as foreseen by optimists, will undergo a process of smooth metamorphosis but the unpredictable undulations that may be involved in the process, are yet to be investigated. The appendix on the Memorandum of Understanding of the PAD project added to the Joint Declaration and the Basic Law already demonstrated other future possible changes may be made, which the pessimists have suggested.

The six years until Hong Kong becomes a SAR of China is still a long way off, longer than most businessmen are used to considered<sup>12</sup>. Hong Kong will remain one of the "most remarkable growth areas in the world" offering profitable opportunities in "such concentrated form"<sup>13</sup>. The "three-legged stool" analogy in describing the relationship among the British, Chinese, and the local Hong Kong people is an important consideration in constructing a positive and flourishing future for Hong Kong both before and beyond 1997<sup>14</sup>.

The key to the future of Hong Kong socially, economically and politically, lies under the control of China

and its action over the last stage of the political transition, before China resumes sovereignty over Hong Kong. The survival of the colony depends upon its attractiveness in a business climate and increased flow of industrial investment from both international firms and local Chinese businessmen.

The pivotal determinant of the future of Hong Kong is the responsibility of the local residents. They have to reflect their opinions and capture opportunities in order to make the "one country, two systems" fruitful, as the basis of this system is to guarantee the basic lifestyle, laws and regulations, and to ensure the freedoms of Hong Kong people which they currently enjoy. The perception of the "one country, two system" principal and capitalism differs between the Chinese Government and the general public of Hong Kong. As a result, the more communication between the two groups will lead to a better understanding of Hong Kong from the view of China and vice versa. Local residents should try to view matters with a Mainland Chinese point of view in order to form a better comprehension between the two. People are the driving force in determining their own future and to search for a better quality of life of which a stable and prosperous economy would be a vital catalyst<sup>15</sup>.

In retrospect, the future of Hong Kong looks promising. The economic future, on the other hand, is on a two-edge saw. The conventional development theories and decolonization theories will not be totally applicable in determining the future of Hong Kong because it is far more complex than it can be ascribed. An assimilation of some of the multi-facets

components in speculating the future of Hong Kong, a city-state, have been discussed. If the economic future is dependent upon the political future, then the future of Hong Kong would have to be analyzed from the Chinese and British government point of view. If the economic future is dependent upon the economic component with a hidden political factor, then the international market force will be a stronger card. The derivatives of the above two attitudes can be applied to look at the future, but that depends on other additives from your personal attitude, background and involvement in Hong Kong. Yet, in any one of the above cases, we will not need to gaze into a crystal ball to find out about the economic and political future of Hong Kong when the time ripe.

NOTES:

1. "Best of the two worlds in one house" is to described the benefits that Hong Kong experienced as a British colony and a city of Chinese culture and origin.
2. Danny K.K. Lam, "Independent Economic Sectors and Economic Growth in Hong Kong and Taiwan", *International Studies Notes*, Vol 15, No.1, Winter 1990
3. The 1990-91 Budget: Speech by the Financial Secretary, moving the Second Reading of the Appropriation Bill, 1990, p.7
4. Felix Patrikeeff, "Hong Kong: At the Crossroads" in seminar series *Changing Realities: Asia Pacific Business*, Research Institute for Asia and the Pacific, The University of Sydney, 1990, in the seminar "Changing Realities: Asia Pacific Business" in August, 1990



5. The guarantees that Beijing has sanctioned are of doubts in the post-Deng era. Ahmed Dalvean, "Hong Kong's Political and Social Culture: Some Continuing Problems of Definition and Perception, and Their Repercussions in a Transitional Polity", *Asian Perspective: A Journal of Regional and International Affairs*, Vol. 12, No.2, Fall-Winter 1988, p.205
  
6. Miron Mushkat, The Economic Future of Hong Kong, p.103
  
7. A Chinese astrophysicist, Professor Fang Li-chih, declared in 1989: "Many people in Hong Kong have emigrated. They are afraid that the Chinese Communist Party (CCP) will not keep its promises. Yes, we have committed too many cases of perjury. I also believed the CCP meant what it said, but in the aftermath of several political movements, it was plainly evident that CCP foreswore itself in every case. No violence would be employed; while these words are still echoing in your ears, a flare-up of violence reoccurs." Peter Dally, "Hong Kong: Fears in London & Peking", *Asian Outlook*, Vol 24, No.1, 1989, pp.15-16
  
8. *Sing Tao Jih Pao* (Australian Edition), January 13, 1991
  
9. "Hong Kong: 1990 and Beyond", *Executive*, December 1989
  
10. It is believed that the Hong Kong privately owned utilities performed better than government utilities and it is suggested that the territory's finances could benefit from privatization. An example is the Kai Tak Airport. It is a profitable operation for the government with an impressive 27% performance, 12% over its target. Other government public utilities, such as the Water Authority, Post Office, and the two government-operated road tunnels, Lion Rock and Aberdeen are underperformed compared with the privately owned counterparts. Michael Taylor, "Hong Kong's Public Monopolies Need a Dose of Salts: Ripe for Sale", *Far East Economic Review*, 2 May 1991, p.43
  
11. *Sing Tao Jih Pao* (Australian Edition), 4 April, 1991, p.19
  
12. Kevin Rafferty, City on the Rocks, p.445
  
13. The trend of continuous growth in its utility to China and its post-industrial development enable Hong Kong to sustain economic growth. Hong Kong Into 1990s, Smith New Court Far East, Hong Kong, 1990, p.13

14. The "three-legged stool" analogy is used to describe the importance of the British, Chinese, and Hong Kong people in the future government structure of Hong Kong. Any one of the three is shorter or longer than the other two will cause an impair structure to the future of Hong Kong.

15. Gerald A. Delilkhan, "Towards 1997: Being Partners Not Partisans", *Executive*, April 1991

POSTSCRIPT

## POSTSCRIPT

One of the concerns that the Chinese Government had was the alarming depletion by 1997 of Hong Kong's reserve for financing the building of the new airport as part of the "Rose Garden" project - PAD<sup>1</sup>. The senior Chinese official Mr. Lu Ping, Director of the State Council's Hong Kong and Macau Affairs Office, accused Hong Kong Government of deceiving its people over the financing of the airport plan. He said that post-1997 HKSAR will only receive an insignificant reserve of several billion dollars if the project were to be funded by public money due to the lack of investors<sup>2</sup>. His repeated criticisms of improper government spending arrangements have generated massive debate in the political arena<sup>3</sup>.

This dispute over the funding of the airport and the proper use of Hong Kong's reserve has generated conflict in the relations between China, Britain, and Hong Kong<sup>4</sup>. The dispute was the subject of intense negotiation between the officials of the three governments. British Foreign Secretary Douglas Hurd, at an attempt to ameliorate the Sino-British relationship after the differing opinion and conflicting stands over the Gulf crisis, left China on 8 April, 1991 after a six-day visit without a definite answer on the airport project. Hurd implied that the airport project could not go ahead without Chinese backing from an economic point of view. Projects such as this one would require private investment equivalent to about one quarter of the total volume plus private investors "would want to know the views of the

sovereign power" after 1997<sup>5</sup>. The pressure exerted on the future political and economical development of Hong Kong by both the British and Chinese governments are to be resolved somehow before the hand over deadline. It would be impossible to estimate the influence of conflicts between British and Chinese Governments on the economic development of Hong Kong, but the Chinese involvement and support on the project will be significant<sup>6</sup>. The disharmony over the issue of possible abandonment of the airport project due to the withdrawal of support from the Chinese Government by and large would indicate an involvement and interference of Hong Kong internal affairs by the Chinese Government before 1997, which would result in a further uncertainty of the Hong Kong political future, hence influencing the market economy development<sup>7</sup>. This is absolutely unacceptable in sustaining prosperity and stability of the territory before 1997.

The breakthrough over the PAD project came in July, 1991. With the release of the Memorandum of Understanding by the Chinese and British Government on 4 July, the Chinese and British governments had come to a conclusion over the PAD project. Explicitly, the Memorandum is an agreement between the two countries that the building of the airport can go ahead. Implicitly, the Memorandum satisfied the Chinese demands in having a part in the direct participation in Hong Kong's domestic affairs before 1997. Besides, it also ensures that the future HKSAR will "bear a minimal financial burden for construction of the airport<sup>8</sup>." The Memorandum is seen as significant as the 1984 Sino-British agreement over Hong Kong

and it is also significant in the improvement of the Sino-British relationship but also reduced greatly the scope of the project<sup>9</sup>.

It is implied that through the PAD project, China would still prefer to maintain Hong Kong's prosperity and stability before and beyond 1997 owing to its economic self-interest. Ideologically, the breakthrough in the negotiations suggested that the China would want to get involved in domestic affairs. Amendments that are to be added to the Sino-British Declaration and to the Basic Law envisaged a further change to the original settlement to the future of Hong Kong while granting concessions that need to maintain Hong Kong's attractiveness to the business community. The better the relationship between Hong Kong and China over domestic economic, social and political issues, the higher the interests is for the overseas countries to continue utilizing Hong Kong as a functional regional base for trading with China and countries in South East Asia. Hence, the international status of Hong Kong can be well maintained.

NOTES:

1. Chinese officials accused the Hong Kong Government that the financing of the controversial HK\$127 billion new port and airport development scheme (PADS) is a risk. Emily Lau, "China Sparks Row Over Airport Project Funding: Blocking the Runway", *Far East Economic Review*, 27 December, 1990; Philip Bowring and Michael Taylor, "Hong Kong Faces Challenge of Mobilizing Vast Assets: Bring on the Reserves", *Far Eastern Economic Review*, 4 April 1990

2. The warning that the cost for building the airport could drain the Exchange Fund, the equivalent of its foreign reserves. Secretary for Economic Services Anson Chan said that the airport funding of the airport would come from the government's accumulated surpluses, which though deposited with the Exchange Fund are not actually part of it. *ibid*, p.8; Emily Lau, "China Demands Set-Aside from Reserves: Terminal Delay", *Far East Economic Review*, 21 March 1991
  
3. Chris Yeung, Shirley Yam, Fanny Wong, "Lu Alleges Reserve will be Depleted", *South China Morning Post*, December 13, 1990, p.1
  
4. A number of side issues were raised while the British and Chinese Governments were debating over the PAD project. One of the main issue was how much say China should have in the airport planning process. Stacey Mosher, "Airport Deadlock Turns on Meaning of Words: Awkward Precedent", *Far East Economic Review*, 6 June 1991, p.22
  
5. Emily Lau, "Peking Acts tough with Britain over Airport Project: Hurded out", *Far East Economic Review*, 18 April 1991.
  
6. *Oriental Daily News* (Hong Kong), April 5, 1991, p.1 editorial
  
7. The deputy director of Hong Kong and Macau Affairs Office under the Chinese State council, Chen Zuo'er declared that any matters in Hong Kong that is a concern affecting the transition should not be decided unilaterally by the Hong Kong administration alone without getting Beijing's approval. Philip Bowing and Emily Lau, "Tougher Chinese Line Damages Colony's Prospects: Turning Up the Heat", *Far East Economic Review*, 14 February 1991
  
8. Mosher, Stacy, "Britain Concedes China's Demands in Airport Deal: Creeping Intervention", *Far East Economic Review*, 18 July, 1990
  
9. The Sino-British relationship deteriorated since the 4th June Tiananman pro-democracy military crackdown in Beijing. British Prime Minister John Major will travel to Beijing to sign the Memorandum of Understanding. He will be the highest ranking Western official to visit China apart from Mikhail Gorbachev. Mosher, Stacey, "British Concedes China's Demands in Airport Deal: Creeping Intervention", *Far East Economic Review*, 18 July, 1991; "Peking's Revenge", *Far East Economic Review*, 18 July, 1991

## TABLES



TABLE A1

GROWTH RATES IN REAL TERMS OF COMPONENTS OF EXPENDITURES  
ON THE GROSS DOMESTIC PRODUCT 1980 TO 1990 (%)

	GDP	Total Exports of Goods	Domestic Exports	Re-exports	Import of Goods	Retained Imports	CPI (A)
1980	10.9	18.7	12.0	37.4	19.3	14.7	15.5
1981	9.4	14.3	8.1	28.4	12.1	7.2	15.4
1982	3.0	-2.7	-2.5	-3.0	-2.2	-1.9	10.5
1983	6.5	14.6	14.3	15.3	9.6	7.5	9.9
1984	9.5	21.9	17.3	30.5	14.7	8.5	8.1
1985	-0.1	5.7	-5.4	24.7	6.2	-2.4	3.2
1986	11.9	15.2	16.1	14.0	13.6	13.4	2.8
1987	13.9	32.9	23.1	45.9	31.6	23.1	5.5
1988	7.9	26.4	9.0	45.7	26.6	13.0	7.5
1989	2.3	10.2	0.1	18.6	8.9	0.0	10.1
1990	2.4	9.2	-0.5	16.0	11.3	6.3	9.8

Average Annual Growth Rate:

10 years (1980-90)	6.6	14.4	7.6	22.8	12.9	7.2	8.2
5 years (1985-90)	7.6	18.4	9.2	27.2	18.1	10.9	7.1

NOTE: GDP = Gross Domestic Product  
CPI = Consumer Price Index

Source: 1991 Economic Prospects, Hong Kong: Economic Services Branch, Government Secretariat, March 1991, pp.50-51

TABLE A1

GROWTH RATES IN REAL TERMS OF COMPONENTS OF EXPENDITURES  
ON THE GROSS DOMESTIC PRODUCT 1980 TO 1990 (%)

	GDP	Total Exports of Goods	Domestic Exports	Re-exports	Import of Goods	Retained Imports	CPI (A)
1980	10.9	18.7	12.0	37.4	19.3	14.7	15.5
1981	9.4	14.3	8.1	28.4	12.1	7.2	15.4
1982	3.0	-2.7	-2.5	-3.0	-2.2	-1.9	10.5
1983	6.5	14.6	14.3	15.3	9.6	7.5	9.9
1984	9.5	21.9	17.3	30.5	14.7	8.5	8.1
1985	-0.1	5.7	-5.4	24.7	6.2	-2.4	3.2
1986	11.9	15.2	16.1	14.0	13.6	13.4	2.8
1987	13.9	32.9	23.1	45.9	31.6	23.1	5.5
1988	7.9	26.4	9.0	45.7	26.6	13.0	7.5
1989	2.3	10.2	0.1	18.6	8.9	0.0	10.1
1990	2.4	9.2	-0.5	16.0	11.3	6.3	9.8

## Average Annual Growth Rate:

10 years (1980-90)	6.6	14.4	7.6	22.8	12.9	7.2	8.2
5 years (1985-90)	7.6	18.4	9.2	27.2	18.1	10.9	7.1

NOTE: GDP = Gross Domestic Product  
 CPI = Consumer Price Index

Source: 1991 Economic Prospects, Hong Kong: Economic Services Branch,  
 Government Secretariat, March 1991, pp.50-51

TABLE A2

LABOR FORCE AND EMPLOYMENT 1984 TO 1990

	Labor Force ('000)	Labor Force Part.(%)	Employed ('000)	Unemployed ('000)	Unemployment Rate (%) Seasonally Adjusted	Underemployment Rate (%)
--	--------------------	----------------------	-----------------	-------------------	--	--------------------------

3/1984	2540	64.9	2439	101	4.0	1.5
9/1984	2644	66.2	2542	102	3.5	1.0
3/1985	2594	64.7	2517	78	3.1	1.5
9/1985	2637	65.0	2542	95	3.3	2.1
3/1986	2656	64.6	2573	83	3.2	2.3
9/1986	2722	65.3	2640	81	2.8	1.3
3/1987	2666	64.1	2616	51	2.1	1.0
9/1987	2760	65.1	2710	50	1.8	1.0
3/1988	2754	64.3	2717	37	1.6	0.9
9/1988	2793	64.8	2752	41	1.6	0.6
3/1989	2796	64.0	2769	27	1.3	0.8
9/1989	2765	63.5	2732	33	1.4	0.6
3/1990	2776	63.1	2738	38	1.7	0.7
9/1990	2765	62.9	2723	42	1.7	1.0

Definition of Terms:

The labor force, or the economically active population, is defined to include all persons aged 15 and over who either were engaged in productive work during the seven days before the day when they were enumerated, or would otherwise have been engaged in productive work but were currently unemployed.

The main criteria for a person to be classified as unemployed are :

- not having a job and not performing any work for pay or profit during the reference week;
- available for work during the reference week; and
- seeking working during the 30 days before enumeration.

The underemployed population consists of those employed persons who involuntarily worked less than 35 hours during the reference week and who were seeking more work, or were not seeking more work but were available for additional work. Working short hours is regarded as involuntarily if it is due to economic reasons which include slack work, material shortage, mechanical breakdown and inability to find full-time work.

Unemployment and underemployment rates: the proportions of those in the labor force who were unemployed and underemployed.

Labor force participation rate: the proportion of those in the population aged 15 and over who were in the labor force.

SOURCE: 1991 Economic Prospect, Hong Kong: Economic Services Branch,  
Government Secretariat, March 1991, pp.56-57

TABLE A3

THE VISIBLE AND INVISIBLE TRADE ACCOUNT 1980 TO 1990 (HK\$MN)

I. VISIBLE TRADE

	Domestic Exports	Re-exports	Total Export of Goods	Import of Goods	Visible Trade Balance
1980	68,171	30,072	98,242	111,651	-13,408
1981	80,423	41,739	122,163	138,375	-16,212
1982	83,032	44,353	127,385	142,893	-15,508
1983	104,405	56,294	160,699	175,442	-14,743
1984	137,936	83,504	221,441	223,370	-1,929
1985	129,882	105,270	235,152	231,420	3,733
1986	153,983	122,546	276,530	275,955	575
1987	195,254	182,780	378,034	377,948	87
1988	217,664	275,405	493,069	498,798	-5,729
1989	224,104	346,405	570,509	562,781	7,728
1990	225,875	413,999	639,874	642,530	-2,656

II. INVISIBLE TRADE

	Exports of Services	Import of Services	Invisible Trade Balance
1980	22,162	14,912	7,250
1981	27,155	19,315	7,840
1982	30,604	20,991	9,613
1983	36,925	25,235	11,690
1984	43,847	30,036	13,811
1985	45,846	33,541	12,305
1986	54,287	39,267	15,020
1987	70,832	46,155	24,677
1988	85,490	55,413	30,077
1989	97,455	62,698	34,757
1990	107,130	72,440	34,690

TABLE A3 Cont'd

III. VISIBLE AND INVISIBLE TRADE

	Exports of goods & Services	Import of goods & Services (**)	Visible & Invisible Trade Balance	Visible & Invisible Trade Gap (%) (***)
1980	120,404	126,706	-6,302	5.0
1981	149,318	158,561	-9,243	5.8
1982	157,989	164,760	-6,771	4.1
1983	197,624	201,890	-4,185	2.1
1984	265,288	254,838	10,450	(4.1)
1985	280,998	266,158	14,840	(5.6)
1986	330,817	316,767	14,050	(4.4)
1987	448,866	426,144	22,722	(5.3)
1988	578,559	556,587	21,972	(3.9)
1989	667,964	672,917	40,047	(6.4)
1990	747,004	717,640	29,364	(4.1)

## NOTE:

(\*\*) = Adjusted to include an estimate of imports of gold for industrial and commercial use.

(\*\*\*) = Visible and invisible trade gap refers to the proportion of the value of imports of goods and services not covered by the value of total exports of goods and services. The figures in brackets for 1984 to 1990 denote the visible and invisible trade surplus expressed as a percentage of the value of import of goods and services.

SOURCE: 1991 Economic Prospects, Hong Kong: Economic Services Branch, Government Secretariat, March 1991, pp.52-53

TABLE A4

I. HONG KONG'S GROSS DOMESTIC PRODUCT 1961-1980

Year	At Current Market Prices		At Constant (1973) Market Prices	
	GDP in HK\$million	% change	GDP % change	GDP per capita % change
1961				
1962			12.5	7.8
1963			13.0	9.2
1964			8.8	6.2
1965			17.8	14.7
1966	11,219		7.1	6.1
1967	12,591	12.2	7.7	5.1
1968	13,669	8.6	4.7	2.5
1969	16,274	19.1	14.8	13.0
1970	19,214	18.1	6.2	3.7
1971	21,873	13.8	5.0	2.7
1972	25,854	18.2	9.7	7.8
1973	33,796	30.7	15.8	13.1
1974	38,786	14.2	1.8	-0.7
1975	40,574	4.6	2.2	0.5
1976	51,973	28.1	18.8	17.5
1977	59,615	14.7	10.2	8.6
1978	69,557	16.7	10.3	8.2
1979	89,473	28.6	12.8	6.2
1980	112,981	26.3	11.7	8.1

## II.

HONG KONG GROSS DOMESTIC PRODUCT 1980-1990

capita Year	At Current Market Prices 1980 to 1990 GDP in		At Constant Market Prices 1980 to 1990 GDP in                      GDP                      GDP per		
	HK\$million	% change	HK\$million	% change	% change
1980	137,081	21.3	137,081	10.9	8.0
1981	164,973	20.3	149,987	9.4	6.9
1982	186,328	12.9	154,512	3.0	1.4
1983	207,562	11.4	164,550	6.5	4.9
1984	248,728	19.8	180,149	9.5	8.4
1985	261,195	5.0	179,946	-0.1	-1.2
1986	300,818	15.2	201,350	11.9	10.3
1987	369,275	22.8	229,421	13.9	12.3
1988	434,023	17.5	247,501	7.9	6.6
1989	490,811	13.1	253,223	2.3	0.9
1990	546,058	11.3	259,352	2.4	1.7

SOURCE: 1991 Economic Prospects, Hong Kong: Economic Services Branch  
Government Secretariat, March 1991, pp.46-51

Lethbridge, David, The Business Environment in Hong Kong,  
2nd Edition, Hong Kong: Oxford University Press, p.48

Youngson, A.J., Hong Kong Economic Growth and Policy, Hong  
Kong, Oxford University Press, 1982, p.8



TABLE A5

## HONG KONG'S EXTERNAL TRADE BY MAJOR TRADING PARTNERS

I. IMPORTS

Source %	1988 HK\$mn	%	1989 HK\$mn	%	1990 HK\$mn	%	1989-90 change in
China	155,634	31.2	196,676	34.9	236,134	36.8	+20.1
Japan	93,008	18.6	93,202	16.6	103,362	16.1	+10.9
Taiwan	44,357	8.9	51,587	9.2	58,084	9.0	+12.6
USA	41,347	8.3	46,234	8.2	51,788	8.1	+12.0
Korea	26,257	5.3	25,465	4.5	28,155	4.4	+10.6
Singapore	18,462	3.7	22,244	4.0	26,122	4.1	+17.4
Germany (FRG) *	13,356	2.7	13,803	2.5	14,828	2.3	+7.4
United Kingdom	12,922	2.6	12,965	2.3	14,118	2.2	+8.9
Switzerland	9,130	1.8	9,696	1.7	11,480	1.8	+18.4
Italy	8,056	1.6	9,901	1.8	10,842	1.7	+9.5
Others	76,270	15.3	81,007	14.4	87,618	13.6	+8.2
Merchandise total	498,798 =====	100.0 =====	562,781 =====	100.0 =====	642,530 =====	100.0 =====	+14.2 =====

II. DOMESTIC EXPORTS

## Destination:

USA	72,884	33.5	72,162	32.2	66,370	29.4	-8.0
China	38,043	17.5	43,272	19.3	47,470	21.0	+9.7
Germany (FRG) *	16,242	7.5	15,757	7.0	17,991	8.0	+14.2
United Kingdom	15,524	7.1	14,638	6.5	13,496	6.0	-7.8
Japan	11,435	5.3	13,028	5.8	12,079	5.3	-7.3
Singapore	5,223	2.4	5,804	2.6	7,795	3.5	+34.3
Taiwan	3,460	1.6	4,460	2.0	5,720	2.5	+28.2
Canada	5,984	2.7	6,299	2.8	5,366	2.4	-14.8
Netherlands	4,918	1.9	4,756	2.1	4,964	2.2	+4.4
France	4,185	1.9	3,620	1.6	3,626	1.6	+0.2
Others	39,764	18.3	40,308	18.0	40,998	18.2	+1.7
Merchandise total	217,664 =====	100.0 =====	224,104 =====	100.0 =====	225,875 =====	100.0 =====	+0.8 =====

TABLE A5 Cont'd

## III. RE-EXPORTS

Destination	1988		1989		1990		1989-90 change in %
	HK\$mn	%	HK\$mn	%	HK\$mn	%	
China	94,895	34.5	103,492	29.9	110,908	26.8	+7.2
USA	49,483	18.0	72,033	20.8	87,752	21.2	+21.8
Japan	17,418	6.3	22,268	6.4	24,376	5.9	+9.5
Germany (FRG) *	8,983	3.3	13,502	3.9	23,406	5.7	+73.4
Taiwan	14,130	5.1	16,478	4.8	21,248	5.1	+28.9
Korea	11,764	4.3	13,279	3.8	13,011	3.1	-2.0
Singapore	8,703	3.2	11,029	3.2	12,572	3.0	+14.0
United Kingdom	6,420	2.3	8,918	2.6	12,107	2.9	+35.7
Canada	3,742	1.4	5,413	1.6	6,527	1.6	+20.6
France	3,072	1.1	4,543	1.3	6,415	1.5	+41.2
Others	56,796	20.6	75,451	21.8	95,677	23.1	+26.8
Merchandise total	<u>275,405</u>	<u>100.0</u>	<u>346,405</u>	<u>100.0</u>	<u>413,999</u>	<u>100.0</u>	<u>+19.5</u>

NOTE: \* In connection with the unification of Federal Republic of Germany (FRG) and German Democratic Republic (GDR) in October 1990, the trade figures for FRG in 1990 and previous years have been revised by adding those of the previous GDR. This is to ensure comparability of these trade figures with those after the German unification.

SOURCE: Hong Kong 1991: A Review of 1990, Hong Kong: Hong Kong Government, 1991, p.422

TABLE A6

INTERNATIONAL MOVEMENTS OF PASSENGERS (IMMIGRATION FIGURES)

	1988	1989	1990	(thousands)
<u>Arrivals:</u>				
Air	6,621	6,754	7,316	
Sea	7,453	7,709	8,501	
Land	16,004	14,659	16,018	
-----				
TOTAL	30,078	29,122	31,835	
<u>Departures:</u>				
Air	6,804	6,902	7,316	
Sea	7,816	7,932	8,718	
Land	15,486	14,280	15,597	
-----				
TOTAL	30,106	29,114	31,832	

SOURCE: Hong Kong 1991: A Review of 1990, Hong Kong: Hong Kong Government, 1991, p.447

TABLE A7

I. STUDENTS LEAVING HONG KONG FOR OVERSEAS STUDIES\*

Country	1988	1989	1990
Britain	3,856	4,539	4,349**
USA	4,215	4,855	5,840
Canada	3,808	5,096	5,681
Australia	3,147	4678	5,258

NOTE: \* Figures are based on the number of student visas issued as supplied by visa-issuing authorities

\*\* Excluding returned students, students on short courses and Government servants on training courses.

SOURCE: Hong Kong 1991: A Review of 1990, Hong Kong: Hong Kong Government, 1991, p.436

II. OFFICIAL HONG KONG GOVERNMENT ESTIMATES OF EMIGRATION, 1980-1991

Year	Number of emigrants
1980	22,400
1981	18,300
1982	20,300
1983	19,800
1984	22,400
1985	22,300
1986	19,000
1987	30,000
1988	45,800
1989	42,000
1990	62,000
1991	60,000 (provisional)

SOURCE: Skeldon, Ronald, "Emigration, Immigration and Fertility Decline: Demographic Integration or Disintegration?" in Sung, Yun-Wing and Lee, Ming-Kwan The Other Hong Kong Report 1991, Hong Kong: The Chinese University Press, 1991, p.235

III. IMMIGRANTS TO MAJOR DESTINATIONS WHOSE LAST PLACE OF PREVIOUS RESIDENCE WAS HONG KONG, 1970-1990

Year	Australia	Canada	United States
1970	-	4,509	9,720
1971	-	5,009	7,960
1972	715	6,297	10,916
1973	734	14,661	10,300
1974	1,130	12,704	10,700
1975	1,593	11,132	12,547
1976	1,302	10,725	16,950*
1977	1,633	6,371	12,272
1978	2,313	4,740	11,145
1979	1,836	5,966	16,838
1980	2,822	6,309	-
1981	1,960	6,451	-
1982	2,414	6,542	11,908
1983	2,756	6,710	12,525
1984	3,691	7,696	12,290
1985	5,136	7,380	10,975
1986	4,912	5,893	9,930
1987	5,140	16,170	8,785
1988	7,942	23,281	11,817
1989	9,998	19,994	12,236
1990	11,538	28,825	-

\* Includes transition quarter June-September in realigned year.

NOTES:

1. Australia : Settler arrivals for the financial year 1 July to 30 June
2. Canada: Landed immigrants in calendar year.
3. United States: Immigrants admitted in fiscal year, 1 July to 30 June from 1970 to 1975 and from 1 October to 30 September from 1977 to 1989. The 1989 figure excludes the intake under the Immigration Reform and Control Act (IRCA) which allowed people who had been resident unlawfully since 1 January 1982 to become residents during 1989.

SOURCE: Skeldon, Ronald, "Emigration, Immigration and Fertility Decline: Demographic Integration or Disintegration?" in Sung, Yun-Wing and Lee, Ming-Kwan The Other Hong Kong Report 1991, Hong Kong: The Chinese University Press, 1991, p.236

TABLE A8

## CITIES OF PEARL RIVER DELTA

	<< US\$ million >>				
Investment	Population (million)	Area in (square KM)	Gross Industrial & Agricultural output	Exports	Foreign
Canton	3.6	7,500	7,750	1,350	300
Foshan	2.7	3,800	4,160	1,300	140
Shenzen	1.0	2,000	3,610	2,990	520
Jiangmen	3.4	9,400	2,680	250	70
Dongguan	1.3	2,500	1,350	160	100
Zhongshan	1.1	1,700	1,350	430	280
Zhuhai	0.5	1,300	950	490	110
Guangdong Province	63.0	212,000	31,000	10,500	2,000

## NOTE:

US\$1 = Rmb 5.2626 exchange rate

Rmb - currency use in China

Source: Guangdong Provincial Statistics in Elizabeth Cheng and Michael Taylor, "Pearl River Cities in Partnership with Hong Kong: Delta Force", *Far Eastern Economic Review*, 16 May 1991

TABLE A9

ECONOMIC AND POLITICAL CONFIDENCE

Index (January 1985 = 100)

Year	Economic Confidence Index	Political Confidence Index
01/1985	100	100
04/1985	105	101
07/1985	94	98
10/1985	94	97
01/1986	96	95
04/1986	96	95
07/1986	103	94
10/1986	104	95
01/1987	102	93
04/1987	103	95
07/1987	105	95
09/1987	109	96
10/1987	103	96
01/1988	99	96
04/1988	101	96
07/1988	103	96
10/1988	102	95
01/1989	104	95
04/1989	101	89
05/1989	97	85
07/1989	85	82

SOURCE: Mushkat, Miron, The Economic Future of Hong Kong, Boulder: GSIS Monograph Series in World Affairs, The University of Chicago, 1979, p.xi

POLITICAL CONFIDENCE INDEX

Index: January 1985 = 100

01/1988	96
05/1988	96
07/1988	96
10/1988	95
01/1989	95
01/1989	89
05/1989	85
06/1989	82
07/1989	86
10/1989	86
11/1989	88
01/1990	88
02/1990	79

SOURCE: BASIC LAW THERAPY, Hong Kong: Baring Securities, 1990, p.8

TABLE A10

ENTREPOT ECONOMYHong Kong, China and the world, 1990

HK\$ billion	China Trade Through Hong Kong		Hong Kong Trade Retained		China and Hong Kong Trade Balance
	Exports	Imports	Exports	Imports	
US	81.6	10.3	66.4	28.2	110.0
Germany	21.4	2.8	18.0	10.1	26.5
Japan	16.0	24.8	12.1	66.3	(63.0) *
China	14.0	14.0	47.5	(10.5) *	58.0
Britain	10.8	2.0	13.5	9.5	12.8
South Korea	6.6	7.6	1.9	16.5	(15.6) *
Taiwan	6.0	25.6	5.7	28.1	(42.0) *
Singapore	3.9	3.2	7.8	15.6	(7.2) *
Others	80.1	20.7	53.1	64.7	47.0
TOTAL	240.4	110.0	225.9	228.5	126.8

NOTE: \*Brackets denotes deficit

Source: Hong Kong Government

Elizabeth Cheng and Michael Taylor, "Pearl River Cities  
in Partnership with Hong Kong: Delta Force", *Far Eastern  
Economic Review*, 16 May 1991



TABLE A11

AVERAGE ANNUAL GROWTH RATES OF REAL GDP: SELECTED ECONOMICS (%)

Country	GDP 1961-1970	GDP 1970-1981
Hong Kong	9.8	9.6
West Germany	4.4	2.2
United States	4.3	2.6
United Kingdom	2.9	2.0
South Korea	8.6	5.7
Japan	10.5	4.6
Phillippines	5.1	5.9
Taiwan	9.6	9.2
Singapore	7.9	9.8
Thailand	7.2	6.7
India	3.7	2.9

Source: David Lethbridge, The Business Environment in Hong Kong,  
Hong Kong: Oxford University Press, 1984, p.6

TABLE A12

THE VALUE OF BRITISH VISIBLE TRADE WITH HONG KONG 1981-1985

Year	British Imports (cif)	British Exports (fob)	Deficit
	----- (in pound million)		
1981	897	618	279
1982	872	732	140
1983	1,177	727	450
1984	1,267	897	370
1985	1,176	949	227

SOURCE: Norman Miners, The Government and Politics of Hong Kong, Hong Kong: Oxford University Press, 1986, p.20

DOMESTIC EXPORTS TO UNITED KINGDOM

Year	domestic exports in HK\$ million	% shares in the value of overall domestic exports
	-----	
1950#	168	4.5
1960	585	20.4
1970	1,481	12.0
1975	2,778	12.2
1980	6,791	10.0
	-----	
1985	8,546	6.6
1986	9,918	6.4
1987	12,905	6.6
1988	15,524	7.1
1989	14,638	6.5
1990	13,496	6.0
	-----	
1989-1990 change in %		-7.8
	-----	

NOTE: # - domestic exports in 1950 included re-exports

SOURCE: Hong Kong 1991: A Review of 1990, Hong Kong: Hong Kong Government, 1991, p.422

"Facing a Changing World", *Hong Kong Business: Annual 1991*, p.42

TABLE A13

ATTITUDES TOWARDS THE BASIC LAW

Questions	Answer	%
1. Do you think that the final draft of the Basic Law reflects local opinion?	Yes	24
	No	53
	No opinion	23
2. Do you think that the final draft of the Basic Law is conducive to the smooth implementation of the "one country, two systems" concept?	Yes	23
	No	40
	No opinion	37
3. Do you think that the pace of democratic development specified in the Basic Law is too fast, just right or too slow?	Too fast	8
	Just right	31
	Too slow	39
	No opinion	22

SOURCE: Basic Law Therapy: Economic Report, Hong Kong: Baring Securities Hong Kong Research, pp.8-9, table 6

TABLE A14

CHINA'S FOREIGN TRADE

Period/Year Turnover	Exports	Imports	Total Trade
	<----- in US\$ bn ----->		
Rehabilitation			
1949	0.4	0.4	0.8
1950	0.6	0.6	1.2
1951	0.8	1.1	1.9
1952	0.9	1.0	1.9
First Five-Year Plan			
1953	1.0	1.3	2.3
1954	1.1	1.3	2.4
1955	1.4	1.7	3.1
1956	1.6	1.5	3.1
1957	1.6	1.4	3.0
Great Leap Forward			
1958	1.9	1.8	3.7
1959	2.2	2.1	4.3
1960	2.0	2.0	4.0
Readjustment and Recovery			
1961	1.5	1.5	3.0
1962	1.5	1.2	2.7
1963	1.6	1.2	2.8
1964	1.8	1.5	3.3
1965	2.0	1.8	3.8
Third Five-Year Plan			
1966	2.2	2.0	4.2
1967	2.0	2.0	4.0
1968	2.0	1.8	3.8
1969	2.1	1.8	3.9
1970	2.2	2.2	4.4
Fourth Five-Year Plan			
1971	2.5	2.3	4.8
1972	3.2	2.8	6.0
1973	5.1	5.0	10.1
1974	6.7	7.4	14.1
1975	7.1	7.4	14.5
Fifteh Five-Year Plan			
1976)	7.3	6.0	13.3
1977)	8.1	7.1	15.2

TABLE A14 Cont'd

Readjustment and Reform			
1978)	10.1	11.2	21.3
1979)	13.8	15.6	29.4
1980)	18.5	21.2	39.7
1981	22.0	20.2	42.2
1982	21.1	16.9	38.0
1983	20.7	18.7	39.4
1984	23.9	23.9	47.8
1985	25.1	38.2	63.3
1986	30.9	42.9	73.8
1987	39.5	43.4	82.9
1988	47.5	55.3	100.8
-----			
1989*	52.5	59.1	107.6
1990**	30.75	27.49	
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NOTE: \* Figures obtained from "China: Recent Economic Developments", *Hong Kong Business Annual 1991*, p.68

\*\* Figures are from January to July 1990

SOURCE: China -- Will She Be Right?, Baring Securities Hong Kong  
 Research, October 1989, p.11 table 4

TABLE A15

## CHINA'S CURRENT ACCOUNT FOREIGN EXCHANGE EARNINGS FROM HONG KONG

Year	Direct trade balance	Tourism <<<<<	Private unrequited transfers ***	Subtotal in US\$ million	Re-export margin of re-exports to China ***	Partial Current Account Balance >>>>>	China's total current account earnings
1977	1,299 (13.8%)	117	229	4,645 (17.5%)	-5	1,645 (17.5%)	9,390
1979	2,018 (12.8%)	315	314	2,647 (16.7%)	-32	2,615 (16.5%)	15,805
1981	2,956 (12.1%)	426	407	3,789 (15.5%)	-177	3,612 (14.7%)	24,512
1983	2,869 (11.3%)	522	296	3,687 (14.5%)	-206	3,481 (13.7%)	25,418
1984	2,781 (9.6%)	636	210	6,627 (12.5%)	-441	3,186 (11.0%)	29,029
1985	1,943 (6.5%)	656	115	2,714 (9.1%)	-725	1,989 (6.7%)	29,812
1986	2,653 (8.6%)	699	145	3,497 (11.3%)	-644	2,853 (9.2%)	30,938
1987	2,557 (6.3%)	982	144	3,683 (9.1%)	-948	2,738 (6.8%)	40,396
1988	1,052 (2.2%)	1,096	254	2,402 (5.0%)	-1,493	909 (1.9%)	47,797
1989	-421 (-0.8%)	1,027	164	770 (2.1%)	-1,629	-859 (-1.7%)	49,995
1990	-1,261	1,172	164	75	-1,746	-1,671	-

SOURCE: Sung Yun-Wing, "Hong Kong's Economic Value to China", in Sung and Lee, The Other Hong Kong Report 1991, p.500

TABLE A16

ACTUAL INVESTMENT IN CHINA'S FOREIGN-INVESTED ENTERPRISES  
(BY COUNTRY OF INVESTORS)

Year	Hong Kong & Macau	Japan	USA	Taiwan	Others	Total
1987	1,598 (69.0%)	220 (9.5%)	263 (11.4%)	-	233 (10.1%)	2,314
1988	2,095 (65.6%)	514 (16.1%)	236 (7.4%)	-	349 (10.9%)	3,194
1989	2,078 (61.2%)	356 (10.5%)	284 (8.4%)	432 (12.7%)	243 (7.2%)	3,393
1990 (Jan-Jul)	736 (59.9%)	110 (8.9%)	135 (11.0%)	92 (7.5%)	156 (12.7%)	1,229

SOURCE: *Hang Seng Economic Monthly*, October 1990

TABLE A17

UNEMPLOYMENT RATE IN NICs

Year	Hong Kong	Taiwan	Singapore	Korea
1986	2.8	2.7	6.5	3.8
1987	1.7	2.0	4.7	3.1
1988	1.4	1.7	3.3	2.5
1989	1.1	1.6	2.2	2.6
1990	1.3	1.7	1.3	2.2*

NOTE: \* Third quarter of 1990

SOURCE: Ho Lok-sang, "Labor and Employment", in Sung and Lee, The Other Hong Kong Report 1991, pp.217-220



TABLE A18

TRUST IN THE HONG KONG GOVERNMENT

	1986 (N=539)	1988 (N=1,662)	1990 (N=803)
	in percentage (%)		
Very distrustful	0	0.9	0.5
Distrustful	20.6	17.3	15.8
Average	-	27.5	38.4
Trustful	65.5	45.1	37.9
Very trustful	1.3	3.4	2.0
Don't know/No answer	12.6	5.7	5.5

SOURCE: Wan Po-san, "The Quality of Life", in Sung and Lee, The Other Hong Kong Report 1991, pp.432-433

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