Capitalist Strategies in Hong Kong: 1985 - 1997

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SUMMARY

In September 1984 the governments of the United Kingdom and The People's Republic of China initialled a Draft Agreement that will return sovereignty of Hong Kong to the PRC in 1997. With the history of Hong Kong being one of economic success, exactly the opposite of the PRC's, the period preceding the initialing of the agreement was one of social and economic disarray in Hong Kong. Concurrently, China was experiencing tremendous economic changes as it turned toward more capitalist methods.

The problem of how the Hong Kong businessman would position himself in the 1985-1997 time frame was the primary goal of my research. Specifically, I was interested in what his strategies, actions, and developments might encompass during this period. Research included reviewing the history of Hong Kong, events prior to the initialling of the Draft Agreement, the Draft Agreement, subsequent events, and the economic developments ongoing in China. A research trip to Hong Kong and China provided the opportunity to conduct a number of non-attribution interviews with Chinese, British, and American businessmen. From my previous research and over fifteen interviews conducted in Hong Kong, I drew my conclusions.

I found that one must view Hong Kong Chinese and expatriate businessmen differently. Additionally, one must consider what passport a businessman held, his personal wealth, and what type of business he was engaged in to even begin to predict what his plans might be in the 1985-1997 time frame. Older businessmen also held different views then young businessmen.

Basically, wealthy Chinese businessmen have and will continue to obtain foreign citizenships. They will stay in Hong Kong and make money as long as they can. The middle class businessman is in a precarious situation. He does not have the wealth to obtain U.S., Canadian, etc., citizenship so he will remain in Hong Kong and be very conservative in his approach. The lower class shop owner must remain in Hong Kong and deal with the PRC. He only wants his freedom and an opportunity to do business. He is really apolitical.

Expatriate businessmen consider Hong Kong "business as usual." They will stay and make money while providing assistance in opening the gateway to China.

Younger businessmen were more optimistic toward the future than older businessmen who had experienced the radical ways of the PRC.

William G. Barnes
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CHAPTER 1

INTRODUCTION

Hong Kong's success story is well known, as it has been described as a "Capitalist Paradise" as well as "The Home of Laissez-Faire." Probably the most cosmopolitan place in the world, Hong Kong is a mix of Europeans and Asians - with the Chinese vastly outnumbering their European fellow residents.[1] Hong Kong today is also perhaps the most free-enterprise, free-trade spot in the world.[2] For the past four years Hong Kong's future has been uncertain due to the 1997 expiration of a 99-year lease on what has been known as the New Territories, an area comprising 92% of Hong Kong's land.[3] The People's Republic of China (PRC) and the United Kingdom's (U.K.) two year long negotiations to resolve the lease's expiration and the future of Hong Kong resulted in serious economic decline and social instability within the British crown colony.

After 22 rounds and 24 months of serpentine negotiations, on September 26, 1984, Chinese Deputy Foreign Minister Zhou Nan and British Ambassador Richard Evans initialed a joint declaration that defines in detail the terms under which China will recover sovereignty over Hong Kong on July 1, 1997 when Britain's 99-year lease expires. Under the highly detailed agreement, in 1997 Hong Kong will become a "Special Administrative Region of the People's Republic of China" with "a high degree of autonomy" and will remain fundamentally unchanged at least until the year 2047.

The agreement declares that the Special Administrative Region of Hong Kong, China will be ruled by Peking only in matters of defense and foreign affairs. Hong Kong will have its own executive, legislative, and judicial powers. Its free port and international banking system will remain intact, as will the market for foreign exchange and gold. Above all, the new "Hong Kong, China" will perserve all its rights and freedoms, including those of speech, press, movement, and religion.[4]

Since 1950, Hong Kong has shown a capacity for economic growth and flexibility that is virtually unmatched in the world.[5] From 1961 to 1976 Hong Kong's gross domestic product (GDP) grew at an average annual rate of 14.3%.[6] Even with the uncertainty caused by the treaty negotiations, the 1983 GDP was 5.1 percent and 1984's was 9.6%.[7] This growth has resulted in Hong Kong now being the No. 3 international financial center after New York and London and the third-largest container port in the world.[8]

Today the United States is by far Hong Kong's largest foreign investor and its principal export market. We account for over 45 percent of the foreign investment in manufacturing and purchased 45 percent of all of Hong Kong's exports in 1984. More than 650 U.S. firms are registered in Hong Kong and more than 13,000 Americans live in the colony. It is estimated that U.S. firms have invested between $4 and $5 billion (U.S.) in Hong Kong, constituting 40 percent of the foreign investment in Hong Kong's manufacturing capacity.[9]

Hong Kong is devoid of natural resources and its land area totals only 1,061 square kilometers. Yet Hong Kong ranks 18th in the world as an exporter of manufactured goods. Hong Kong is the world's largest exporter of clothing, toys and dolls, and plastic flowers and the second largest exporter of watches, radios, and electric fans in value terms. 90% of its manufacturing production is exported and Hong Kong closed 1984 with an unemployment rate of only 3.8%.[10]

One must ask how Hong Kong has established and maintained such impressive economic growth. It has been accomplished in part by maintaining:

1. A consistent economic policy of free enterprise and free trade.
2. A skilled industrial force.
3. A sophisticated commercial and industrial infrastructure.
4. A modern and efficient seaport and airport.
5. Excellent world-wide communications.
6. Abundant management expertise.
7. A low tax base and business profits tax which is currently at 18.5 percent.
8. No general import tariffs.
9. No foreign exchange control.
10. And no restrictions on currency movements.[11]

The real issue at stake is whether the PRC's Chairman, Deng Xiaoping's concept of "one country, two systems" can maintain Hong Kong's present economic status. Can the PRC's current pragmatic

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leadership preserve the autonomy of Hong Kong against deep-rooted nationalist and xenopholic pressures within the Communist Party? If the current PRC leaders are replaced by a more radical group, will the current agreement be honored? In the future, Hong Kong may live or die by Peking's political whim. The essence of the agreement is that over five million Hong Kong residents will soon have their future determined by a totalitarian government not known for tolerance or stability.

Hong Kong residents recall that when the communists took power over mainland China in 1949, they promised private industrialists in Shanghai that they could stay in business. Soon afterward, the government compelled the so-called national bouregeoisie to sell their assets to the state at a low fixed rate and then persecuted them.[12] Will the Hong Kong of 1997 become the Shanghai of 1949?

Given the facts that the U.S. is Hong Kong's chief trading partner and its largest foreign investor, along with the emerging political and economic developments between the PRC and the U.S., the manner in which the PRC exercises the resumption of sovereignty over Hong Kong will have long-term impacts on our future relations. Hong Kong could be considered within the realm of an important economic interest of the U.S. and future actions to negate this interest would certainly set back U.S.-PRC relations.

The central theme of this paper will be to determine what strategies, actions, or developments Hong Kong businessmen will engage in between 1985 and 1997 in preparation for PRC control. In particular, I will be concerned with the Hong Kong Chinese businessman's views and actions but will also consider the plans that the expatriate businessman might undertake. In order to fully develop the paper I will present a brief history of Hong Kong, a review of the events leading up to September 26, 1984, briefly review the Draft Agreement, review events since that date, present an overview of economic developments ongoing within the PRC, and then report on my on-site research in Hong Kong. The report of my on-site research will consist of my personal impressions of Hong Kong and China during my visit of March 19-27, 1985; synopsises of a number of interviews that I conducted in Hong Kong with businessmen and related individuals; and I will in closing, attempt to draw some overall conclusions on what I believe to be Hong Kong businessmen's plans, both economically and personally, as they prepare for 1997.

CHAPTER 2

A HISTORY OF HONG KONG

Hong Kong history relevent to this paper begins at the end of the 18th century when the British dominated the foreign trade at Guangzhou (Canton) but found conditions unsatisfactory, mainly because of the conflicting viewpoints of two quite dissimilar civilizations, The Chinese confined the British traders to the factory area in Guangzhou and they were allowed to remain only for the trading season, during which they had to leave their families at Macau. Additionally, the British were forbidden to enter the city or to learn the Chinese language.

Trade had been in China's favor and silver flowed in until the growth of the opium trade - from 1800 onwards - reversed this trend. The East India Company lost its monopoly of the China trade after 1834 and the foreign free traders, hoping to get rich quickly, joined the lucrative opium trade which the Chinese had made illegal in 1799. In 1839 the Chinese Commissioner in Guangzhou was ordered to stamp out the opium trade. He immediately arrested the British Superintendent of Trade and seized 20,283 chests of opium.

The British government then demanded a commercial treaty that would put trade relations on a satisfactory footing, or the cession of a small island where the British could live free from threats. A British expeditionary force arrived in June, 1840, to back these demands and thus began the so-called First Opium War (1840-1842). Hostilities alternated with negotiations until the Convention of Chuanbi was signed in January, 1841 ceding Hong Kong Island to Britain.

Neither side accepted the Chuabi terms and in August, 1842 a second British naval force sailed up the Yangtze River and threatened to assault Nanking (Nanjing). Hostilities ended with the signing of the Treaty of Nanjing in August, 1842 and Hong Kong Island was ceded to Britain in perpetuity.

The Second Opium War (1856-1858) arose out of disputes over the interpretation of the earlier treaties and over the boarding of a British ship by the Chinese in search of pirates. The Convention of Peking, 1860, which ended these hostilities, provided for the outright cession of the Kowloon Peninsula and Stonecutters Island in perpetuity.

After Germany, France, and Russia rescued China from its defeat by Japan in 1895, in the ensuing tensions, Britain felt that efficient defense of Hong Kong harbor demanded control of the land around it. By a convention signed in Peking on June 9, 1898, the New Territories, comprising the area north of Kowloon up to the Shum Chun River and 235 islands, were leased for 99 years.

After the Chinese Revolution of 1911, which overthrew the Manchu Dynasty, there was a long period of unrest in China and large numbers of people found shelter in Hong Kong. By 1931 the population had grown to 878,947 (859,425 Chinese).

Japan occupied Manchuria in 1931 and Guangzhou in 1938. Between 1937 and 1939 it was estimated that 750,000 refugees entered Hong Kong bringing the population at the outbreak of World War II to an estimated 1.6 million. On December 8, 1941 the Japanese invaded Hong Kong and the occupation lasted for three years and seven months during which trade virtually disappeared, currency lost its value, the food supply was disrupted and government services and public utilities were seriously impaired. After the Japanese surrender on August 14, 1945, Britain established a temporary military government and formally restored civil government on May 1, 1946.

During the period 1948-1949, as forces of the Chinese Nationalist Government began to face defeat at the hands of the communists, Hong Kong received an influx of people unparalleled in its history. About three quarters of a million people - mainly from Guangdong Province, Shanghai, and other commercial centers - entered the territory during 1949 and 1950 bringing the population total to 2.3 million. Since then the population has continued to rise due to a steady flow of refugees from China and currently stands at approximately 5.6 million.[13]

From the 1840's until 1950 Hong Kong served as a staging post and transshipment center for trade between China and the Western world. With the Korean War and the American embargo on export of strategic goods to China much of this trade was cut off, and Hong Kong turned to manufacturing.[14] Initially Hong Kong's industrial revolution was based on cotton textiles, gradually adding woollens, and in the late 1960s, man-made fibres and clothing. While textiles and clothings make up more than 40 percent of domestic exports by value, major contributions are made by electronic products, watches and clocks, plastic goods and other light industries.[15] Additional earnings come from banking, insurance, shipping, and tourist trade, although, the transshipment trade between the Far East and other parts of the world is still important.[16]

CHAPTER 3

EVENTS PRIOR TO SEPTEMBER 26, 1984

To fully appreciate the magnitude of the agreement on the future of Hong Kong that was initialled on September 26, 1984 and understand what the businessmen, as well as the residents of Hong Kong, have endured the last four years, one must review the events that occurred prior to the acceptance of the agreement.

In the late 1970's there was increasing realization by all concerned that the individual land leases in the New Territories, all of which expire three days before the expiry of the New Territories lease in 1997, posed a problem. It was clear that the shortening span of these leases and the inability of the Hong Kong Government to grant new ones extending beyond 1997 would be likely to deter investment and damage confidence. At this time the British Government, in consultation with the Kong Kong Governor, conducted a detailed examination of the 1997 deadline.[17]

In March 1979, the Governor of Hong Kong, Sir Murry MacLehose, visited Peking in an attempt to solve the question of land leases expiring in 1997. He was unable to resolve the problem but did bring back the message from Chairman Deng Xiaoping that "Hong Kong's investors should put their hearts at ease."[18]

During the course of the next two years there was increasing awareness of the need to remove the uncertainty of the 1997 deadline. In February 1980, a local Hong Kong newspaper was calling on China and Britain to issue a joint communique on Hong Kong's future or attend to the New Territories lease issue not later than 1982.[19] By late 1981, malaise in the Hong Kong property and stock markets, continuing calls for action from the Hong Kong press, and a series of visits from British diplomats had persuaded Chinese leaders that the problem could no longer be put off. In January 1982, China indicated it was ready to talk. Against this background, the British Government decided that Prime Minister Thatcher's September 1982 visit to China would provide an opportunity to open discussions with the Chinese Government on the future of Hong Kong.[20]

The British Government, with strong backing from the Hong Kong Chinese establishment, undertook to negotiate Hong Kong's future at this time because the timing seemed especially propitious. There was a Tory government in London, Mrs. Thatcher had just fought and won the Falklands War, Deng Xiaoping seemed to be at the peak of his power, and China had launched a major campaign of economic reform. The conditions seemed perfect to negotiate a perpetuation of British administration in Hong Kong after the lease expired.[21]

In June 1982, Deng Xiaoping told a group of pro-Peking Hong Kong residents that China would recover sovereignty over Hong Kong in 1997, but that the Hong Kong people could keep their existing lifestyles and economic system. The following month it was announced that China's new draft constitution would contain a clause providing for the creation of "Special Administrative Regions," a reference, it was thought to Hong Kong and Taiwan.[22]

Following the meeting between Prime Minister Thatcher and Chairman Deng Xiaoping on September 24, 1982 the following joint statement was issued:

> "Today the leaders of both countries held far reaching talks in a friendly atmosphere on the future of Hong Kong. Both leaders made clear their respective positions on this subject.
>
> They agreed to enter talks through diplomatic channels following the visit with the common aim of maintaining the stability and prosperity of Hong Kong."[23]

The first phase of the negotiations were conducted by the British Ambassador in Peking and the Chinese Foreign Ministry with the British position that they could negotiate an extension of the lease, thereby perpetuating the status quo into the next century.[24] The Chinese held the position that they would regain both sovereignty and administrative rights over Hong Kong no later than 1997. The talks became deadlocked over the issue of sovereignty and capital drained away from Hong Kong and emigration lines at local consulates lengthened.[25]

In late 1982 the Hong Kong property market was weak due to the political and economic future of Hong Kong at a time when the supply of both residential and office space was at a peak. Since the Hong Kong stock market is heavily influenced by property market trends, the Hang Seng Stock Index (1964=100) closed the year at a lackluster 784.[26] The Hong Kong dollar had weakened against the U.S. dollar and closed the year at HK $6.475 = U.S. $1 which was only marginally better than its all time low of HK $6.96 = U.S. $1 which was reached during October 1982.[27]

Hopes ran high on July 1, 1983, when it was announced that the negotiations would enter "Phase II" with a two-day meeting in Peking beginning July 12. Round 1 of the talks was officially described as "useful and constructive," Round 2 held 12 days later, was merely "useful," and Round 3, convened in early August warranted no adjectives at all.

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The month that followed was the most harrowing for Hong Kong since reverberations of China's Cultural Revolution brought demonstrators and bombings into the streets in the summer of 1967. Throughout September, pro-Peking publications in the territory fiercely attacked those who argued that it was in the best interests of Hong Kong - and China - that British administration continue. When Round 4 concluded towards the end of September with no sign of improved understanding, anxiety among the Hong Kong residents turned into panic. The deterioration of the local currency's value accelerated and even ordinary wage-earners rushed to convert their savings into U.S. dollars. Within 36 hours the Hong Kong dollar plummeted from about 8 per U.S. dollar to a previously unimaginable HK $9.6 to $U.S. 1 dollar on Septmeber 24. Fears of hyperinflation sparked panic buying in the supermarkets and the possibility of rioting loomed.[28] The Hang Seng Stock Market Index fell to the 690 level on October 4 - the lowest level for 1983.[29] On October 15 the Hong Kong Government announced a plan to support the Hong Kong dollar by committing itself to support a fixed rate of 7.8 Hong Kong dollars to the U.S. dollar.[30]

Throughout 1983 the property market and rentals remained depressed causing considerable difficulty in the financial market. The Hang Lung Bank was taken over by the Hong Kong Government to avoid the possibility of an unstable situation developing in the banking sector and a number of highly-leveraged, property companies went bankrupt. The most dramatic failure was that of the Carrian Group, which represented the largest bankruptcy in Hong Kong's history.[31] Reportedly the wealthy Hong Kong Chinese entrepreneurs, mindful of how Shanghai's capitalists fared after the Communist's took over in 1949, had sent billions in U.S. dollars out of the colony and their demand for foreign passports and visas was soaring.[32]

While many Hong Kong residents were making decisions to leave or stay in Hong Kong, to transfer assets abroad, or to prepare an escape route, the oldest of the Hong Kong trading houses; Jardine, Matheson, announced on March 28, 1984 that it was moving its headquarters to Bermuda.[33] On April 20, 1984 the British Foreign Secretary Geoffrey Howe publicly confirmed the British decision to relinquish control of Hong Kong by the statement:

> "But it is right for me to tell you that it would not be realistic to think of an agreement that provides for continued British administration after 1997. For that reason Her Majesty's Government had been examining with the Chinese Government how it might be possible to arrive at arrangements that

> would secure for Hong Kong, after 1997, a high degree of autonomy under Chinese sovereignty, and that would preserve the way of life in Hong Kong, together with the essentials of the present system."[34]

Prior to his statement there had been enough public leaks regarding the talks that most of the major parts of the agreement were public knowledge.

On July 18, 1984, Sir Geoffrey Howe described to the House of Commons arrangements that would be made to test the acceptability in Hong Kong of any agreement reached with the Chinese Government. An Assessment Office was to be established in Hong Kong on September 1, 1984 to receive all views expressed on the draft agreement in writing; to collate, summarize, analyze and assess all views expressed; and to submit a report to the Governor of Hong Kong which would include an overall assessment of the extent of acceptance by the people of Hong Kong of the draft agreement.[35] The Assessment Office was formally established on September 1, largely to fulfill Mrs. Thatcher's previous pledge that she would seek an agreement acceptable to China, Parliament, and the people of Hong Kong.[36]

On August 1, Sir Geoffrey Howe announced in Hong Kong a list of ten major points to be included in the agreement. Equally important, he revealed, the agreement would stipulate that its contents be reflected in Hong Kong's still-to-be-drafted Basic Law.[37] He also announced that a Sino-British Joint Liaison Group would be established until the year 2000. It would meet in Peking, London, and Hong Kong for the purposes of liaison, consultation on the implementation of the agreement, and exchange of information and that the British Government would continue to be responsible for the administration of Hong Kong up to June 30, 1997.[38]

Following Howe's announcement, negotiations continued on the unresolved issues of civil aviation, nationality, land and Hong Kong's future governmental structure, but compromises were made and by September 18 both sides had approved the texts of the documents that made up the agreement. The texts were initialled by the two delegation leaders on September 26, 1984.[39]

CHAPTER 4

THE AGREEMENT ON THE FUTURE OF HONG KONG

The agreement consists of a Joint Declaration and three Annexes. In this chapter only the highlights of the agreement will be presented along with any points that pertain to the economic future of Hong Kong.

Joint Declaration. The hightlights of the Joint Declaration are as follows:

- The PRC Government has decided to resume the exercise of sovereignty over Hong Kong (Hong Kong Island, Kowloon, and the New Territories) with effect from July 1, 1997.

- The Government of the U.K. will restore Hong Kong to the PRC on July 1, 1997.

- The PRC, in accordance with Article 31 of the Constitution of the PRC, will establish a Hong Kong Special Administrative Region (SAR) upon resuming sovereignty.

- The SAR will enjoy a high degree of autonomy, except in foreign and defense affairs, which are the responsibilities of the PRC Government.

- The SAR will be vested with executive, legislative, and independent judicial power. The current laws will remain unchanged.

- The government of the SAR will be composed of local inhabitants. British and other foreign nationals may also serve as advisers or hold certain public posts in the government.

- Status of a free port and a separate customs territory will be maintained.

- Markets for foreign exchange, gold, securities, and futures will continue. The Hong Kong dollar will continue to circulate.

- The SAR will have independent finances and the PRC Government will not levy taxes on the SAR.

- "Hong Kong, China" may conclude relevant agreements with states, regions, and international organizations.

- The SAR may issue its own travel documents for entry into and exit from Hong Kong.

- The maintenance of public order will be the responsibility of the SAR's government.

- The above policies will be incorporated into a Basic Law of the Hong Kong SAR and remain unchanged for 50 years.

- A Sino-British Joint Liaison Group will be established to effectively implement the Joint Declaration.

<u>Annex I</u>. In this annex the PRC Government elaborates the basic policies as set forth in the Joint Declaration. Additional relevant points are as follows:

- The SAR shall continue the previous system of civil aviation management and keep its own aircraft register. (This section regarding the operations of civil airlines was written specifically for Cathay Pacific Airlines and was one of the last sections agreed to.)

- Military forces of the PRC may be stationed in the SAR for the purpose of defense and shall not interfere with internal affairs.

- Entry into the SAR of persons from other parts of China shall continue to be regulated in accordance with present practice.

- The categories of persons who have the right of abode in the SAR are perscribed.

<u>Annex II</u>. This annex establishes a Joint Liaison Group for the purpose of implementing the Joint Declaration, discussing matters relating to the smooth transfer of government in 1997, and to exchange information and conduct consultations. The Joint Liaison Group shall continue its work until January 1, 2000 and shall meet at least once in Beijing, London, and Hong Kong each year.

<u>Annex III</u>. This annex sets forth provisions to deal with land leases. Basically the present Hong Kong government and the SAR government can grant, renew, or extend land leases until June 30, 2047. The total amount of new land leased is limited to 50 hectares a year.

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Exchange of Memoranda: DECLASSIFIED

Associated with the agreement is a separate Exchange of Memoranda on the status of persons after June 30, 1997 who are presently British Dependent Territories Citizen (persons holding only Hong Kong passports). These individuals can continue to use their passports issued by the British Government after July 1, 1997 and are entitled to British consular services and protection when in third countries. They will not have the right of abode in the United Kingdom. By separate memorandum the PRC Government concurred.[40]

CHAPTER 5

EVENTS SUBSEQUENT TO SEPTEMBER 26, 1984

Immediately after the draft agreement was initialled, the Hong Kong Government published 2.7 million copies of the text in the form of a White Paper.[41] The Assessment Office immediately began to monitor and assess public discussions, debates, seminars, speeches, newspaper and magazine editorials and articles, and received over 1800 letters expressing views. In November the Assessment Office reported that most of the people of Hong Kong found the draft agreement acceptable.[42] Anxieties were expressed in the Assessment Office report regarding possible interference in Hong Kong's affairs by Peking, fears about the protection of civil rights, uncertainty about the acceptance overseas of post-1997 travel documents, and fears about the presence of Communist troops in Hong Kong and conscription into the Chinese army.[43]

The strongest international support came from Washington, where Secretary of State George Shultz said the U.S. would support Hong Kong's post-1997 participation in international bodies and accept travel documents issued by the future Special Administrative Region government. Japan noted that the agreement was "the first constructive step forward for the future of Hong Kong". South Korea and Vietnam, two states hardly on friendly terms with Peking, also welcomed the accord.[44]

On November 14 China's National People's Congress approved the agreement. The House of Commons began debating the agreement on December 5 and likewise, the House of Lords on December 10. They both approved the agreement clearing the way for Premier Zhao Ziyang and Prime Minister Thatcher to sign the agreement on December 19 in Peking formally concluding the process of negotiation. The document will be submitted to the Third Session of the Sixth National People's Congress in April 1985 and to the British Parliament for final ratification before June 30, 1985.[45]

With the reassurance provided by the agreement, many U.S. companies began investing in Hong Kong in a significant manner. Strague Electric Company invested HK $100 million into a Kowloon plant to produce ceramic capacitors and integrated circuits, Texaco spent HK $200 million on the installation of oil supply equipment, the Bank of America invested HK $400 million in a regional data center and other companies such as Motorola, Exxon, Wang Laboratories, and Esso have recently invested capital in Hong Kong bringing the total U.S. investment to U.S. $4.6 billion.[46]

The China connection, which will be discussed in the following chapter, was increasingly seen by investors as a strong plus in the Hong Kong situation. In October a Hong Kong firm signed a joint venture with China under which almost US $300 million will be spent to construct a superhighway between Hong Kong and Canton.[47]

For businessmen and investors in Hong Kong, November 28, 1984 was the turning point for Hong Kong. At the first Hong Kong government land auction since the initialling of the agreement, a prime site in the reclaimed Tsimshatsui East tourist area was purchased by a Sino-Japanese consortium as a hotel site for HK $190 million (U.S. $24 million). The price per square meter was double the price paid for a similar site prior to the agreement and was widely seen as a reemergence of investor confidence in Hong Kong. The next day the Hang Seng Stock Index which had topped 1,000 in late September gained over 17 points to close at 1136, the highest level since March 1984.[48]

With Prime Minister Thatcher and Chinese Premier Zhao Ziyang signing the Joint Declaration in Peking on December 19 in the presence of Chairman Deng Xiaoping and President Li Xiannian, the uncertainty over Hong Kong's future continued to fade. The Hang Seng Stock Index opened 1985 at 1,220 and in a wave of euphoria, the index smashed the 1,300 barrier on January 10 with a 49 point increase to hit the 1,319 level, a level that had not been seen for 2 1/2 years.[49]

In January several corporate events took place that signaled that Hong Kong was back in business. The privately owned Hong Kong utility, China Light and Power, signed a joint-venture agreement with China's Guangdong Nuclear Investment Company to build a nuclear power plant in China about 50 kilometers from Hong Kong. Additionally, Hutchison Whampoa, a Hong Kong trading house paid HK $2.9 billion in cash for a 34% interest in Hong Kong Electric. Both of these events confirmed what many businessmen were predicting - that a great megalopolis would emerge as Hong Kong reached out to Shenzhen, Guangzhou, and other areas in Southern China to form one vast industrial zone with no let up in the demand for electricity. Asian Finance remarked that:

> "Both events had one thing in common: they arose from an optimism about Hong Kong's future, and a fundamental perception of its opportunities. In a symbolic way, they marked an auspicious start for the new year the first significant demonstration of confidence after the signing of the Sino-British agreement and hearalded the beginning of what most observers believe is going to be Hong Kong's bull year."[50]

By February 15 the Hang Seng Index had risen to 1,405, the highest since May 1982.

The Far Eastern Economic Review reported that with domestic exports up 35% in 1984, with especially strong growth to the United States and China, the factory space vacancy rate by year-end was only 5.2% - less than half the 1982 level. Likewise, sales of residential apartments in 1984 rose 22.6% from 1983, with young local professionals the driving force in the market since few of these buyers could think seriously of migrating.[51] The magazine also reported that New York City was becoming a prime market for Hong Kong property investment with perhaps U.S. $25-35 million invested in residential property in 1984. Interest was continuing in townhouses and large family apartments along Fifth Avenue and Park Avenue on the East Side of Manhattan and in Chinatown in Lower Manhattan. Three, four, and five bedroom apartments were being brought at a minimum of U.S. $800,000 and prices go up to U.S. $3 million. Townhouses start at U.S. $1 million and move higher to U.S. $4-5 million. Must of the investments are residences to live in - either now or in the future. They are being bought by English-speaking Chinese with an eye to 1997 when Hong Kong becomes a Special Administrative Region of China.[52]

In early 1985 Hong Kong hotel accupancy rates were running close to 90% due to a continuing tourist and business-visitor boom. The Hong Kong Tourist Association projects occupancy rates for all hotels declining only slightly to around 85% in 1988 as Hong Kong continues to benefit as a regional commercial and tourist center, as well as a gateway to China.[53]

Hong Kong's economy is expected to remain buoyant throughout 1985, with growth forecasted at 7%, but it will be more reliant than ever on exports. There are new U.S. rules of origin for textiles to contend with so domestic exports to the U.S. are forecasted to grow at only 10%. The key to the export growth is China. In 1984 the domestic exports to China rose 60% bringing that to 8% of the total and surpassing West Germany and Britain. A further rise of 40% is forecast for 1985. Meanwhile, consumer-price inflation is falling and a forecast of 5% inflation for 1985 may be high. Plant purchases are expected to show a rise of 15% after an impressive 21% gain in 1984.[54] It is obvious that confidence in Hong Kong's future has been restored with a vengeance and that Hong Kong investors have a new sense of clarity and resolution about 1997. Hong Kong's economy has returned to business as usual.

CHAPTER 6

THE CHINA CONNECTION

The scope of this paper does not allow an indepth discussion of the dynamic economic changes occurring in China, but a brief overview is necessary to present the growing economic links between Hong Kong and China and in particular, the expertise and managerial skills that Hong Kong businessmen can, and are providing to PRC managers. The future economic development in China and the importance that Hong Kong will play in this development will be a major factor in the decisions regarding the personal and economic plans of Hong Kong businessmen.

Since late 1978, when a watershed meeting of the Communist Party Central Committee pushed aside the Maoists and elevated the pragmatic Deng Xiaoping to top leadership, gross domestic product increased 50% to U.S. $265 billion in 1983, while China has increasingly opened its doors to foreign investment. China's 800 million peasants have been spurred to harder work by a "responsibility system" that contracts land to individual households and allows them to keep profits from the sale of production that exceeds quotas. Factory reforms are making less headway because of bad management, overmanning and overinvestment in outmoded heavy industries. But while efficiency is suffering, the increase in the rate of production is moving ahead at 7% a year.[55]

The Chinese leadership is allowing some privately owned businesses, profits, prices determined by market forces, and unearned income from stock dividends. The results can already be seen in a dramatic rise in living standards. Average income has increased about 66% in the past five years. Bicycles, radios, and watches, once scarce, are now commonplace and newly "rich" Chinese families aspire to own refrigerators, washing machines, and motorcycles.[56]

To encourage foreign investment the Chinese Government has established four Special Economic Zones (SEZ's) where an investor can enjoy tax advantages, a developed infrastructure, more flexible labor practices, and easier access to the China market.[57] These four SEZ's of Shenzhen (adjacent to Hong Kong), Zhuhai (adjacent to Macau), Shantou (all in Guangdong Province which is adjacent to Hong Kong/Macau geographically), and Xiamen (Fujian) will lead the way as China adapts to capitalist methods. To further enhance economic reforms the government opened up fourteen additional coastal cities to foreign investors in April 1984.[58]

Guangdong Province has signed 41,000 contracts with foreign companies - contractual or equity joint ventures, compensation deals or straightforward trade exchanges. U.S. $1.5 billion dollars in foreign capital has been spent, $700 million of which has been used to import new equipment, technology and management training. Some foreign oil men have given Guangzhou (Canton) its latest nickname, "the Houston of China."[59]

Dozens of Hong Kong businessmen have opened up assembly plants across the border in the SEZs. In fact, 80% to 90% of the U.S. $3 billion of investment committed to the zones has come from Hong Kong.[60] This investment has been possible since Hong Kong's transportation and communication links to China have mushroomed in the last several years. Regular direct-train, bus, truck, car, ferry, hovercraft, and airplane service now link the two. Telex and telephone links are expanding quickly, and direct-dial telephone service is now available to southern China.[61]

Only Japan rivals Hong Kong in its trading importance to China and Hong Kong's role has grown, rather than diminished, as China's trade links with the rest of the world have developed. Since 1978, Hong Kong's domestic exports and re-exports to China have grown more than 100-fold-from HK $81 million (U.S. $10.38 million) to HK $11.3 billion at the end of 1984, and from HK $214 million to HK $28 billion, respectively. At the same time imports grew nearly six-fold, from HK $10.5 billion to HK $55.75 billion. The trading boom resulted in a new breed of local China traders and attracted a number of China-controlled companies to Hong Kong.[62] Many of those doing best out of this new China trade are small Hong Kong Chinese family firms with their favored customers being fellow Cantonese friends in Guangdong Province.[63] It was also recently reported in the PRC Communist Party newspaper, People's Daily that the Special Economic Zone of Zhuhai has started selling more than 300 commercial shops to Chinese from Hong Kong and Macau. As an added inducement Zhuhai will allow mainland relatives of the buyers to resettle in the zone, which is among the most highly desired living places in China because of higher pay, better jobs, and availability of consumer goods. Reportedly, more than 120 of the shops had already been sold.[64]

Besides trade, another major aspect of the Hong Kong-China connection is the fact that no group of businessmen or people better understand China than those of Hong Kong. Hong Kong should continue to supply managerial and technical expertise to not only China - but most critical of all - to foreign companies and investors. Hong Kong will be the interface between two very different styles of doing business.[65]

China's past radical policies of the Cultural Revolution or the earlier disaster, The Great Leap Forward, have mired the nation and Chinese people in poverty with a per capita income of only U.S. $350 - about the same as Haiti or Guinea. The middle-aged Chinese are poorly educated because of the previous involvement in political radicalism rather than education or acquiring skills. Some 78% of the Communist Party's 40 million members are illiterate or have no more than a ninth-grade education. The Chinese leadership is fully aware that the country's requirements for managerial and technical skills can be filled from Hong Kong.[66]

An interesting note to the Hong Kong-China connection is the large number of Hong Kong residents studying the Mandarin dialect which is the national language of China as opposed to the Cantonese dialect which most of the Hong Kong Chinese residents speak. One Hong Kong language institute has 10,000 students studying Mandarin and most Hong Kong corporations now view Mandarin-language training as a long-term investment. About 10% of the employment ads in a recent newspaper required or recommended that the applicant be fluent in Mandarin, while the Hong Kong Education Department has introduced a pilot program to teach Mandarin in selected primary and secondary schools. A final decision will be made in 1986 for school system wide Mandarin training.[67]

In summary, the entrepreneurial spirit flourishes in Hong Kong - there is no way the Hong Kong businessman can, nor will ignore the one billion person market in China. Not only is there a tremendous market in China, but China represents an enormous source of inexpensive labor supply with Chinese labor cost presently about 20-30% of Hong Kong's labor cost. As one Hong Kong businessman recently remarked, "My goal is to put the women of China to work manufacturing garments and then sell each of them a tube of lipstick." The China connection is currently playing and will continue to play a major role in the plans of Hong Kong businessmen.

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CHAPTER 7

RESEARCH IN HONG KONG AND CHINA

1. This chapter will present my personal impressions and views of Hong Kong and China gained during a research trip in March 1985 and a synopsis of a number of interviews that I conducted in Hong Kong.

Hong Kong. My previous visits to Hong Kong were in September, 1966 and December, 1976. When I returned to Hong Kong for my third visit I found that many visible changes had occurred in the British Crown Colony. The number of new high-rise commercial buildings and hotels that had been built on Hong Kong Island and in Kowloon was staggering. I hardly recognized previously visited areas surrounding the central district on Hong Kong Island, particularly the area west of the central district which is now heavily developed with commercial buildings. Presently under construction in the central district is an ultramodern skyscraper that will become the world headquarters of the Hong Kong and Shanghai Banking Corporation when completed later this year. When I first viewed the building it appeared to be the most impressive, modern "architectural wonder" that I had ever seen. The building is reportedly to be the most expensive corporate headquarters in the world, costing almost U.S. $1 billion. The Kowloon waterfront now consists of a large amount of land reclaimed from the harbor. This land is now the foundation for new four and five-star hotels such as The Regent, The Shangri-La (Westin Corp.) and a Holiday Inn all housing and surrounded by ultra-modern and upscale shopping malls.

The number of people on the streets had greatly increased - local Chinese; tourists; and Western, Japanese, and PRC businessmen. The PRC businessmen being easily recognized by their Mao-style tunics coordinated with their Western-style trousers, shoes, and leather brief cases. The streets were jammed with mostly expensive English and German automobiles as well as the standard red taxi. Reportedly, there are more Rolls-Royce automobiles registered in Hong Kong than in London. The Chinese population seemed well fed and clothed and there was an almost total absence of beggars on the streets. Most of the school-age children wore glasses, particularly the boys, due to their rigorous academic studies which prepares them for the keen competition of admission to the limited seats in the University of Hong Kong or local technical schools.

The suburban areas surrounding Kowloon were filled with light industrial manufacturing plants. By U.S. standards the employees are exploited and a garment manufacturing plant would be considered a "sweat shop." The average worker, works six days a week and lives in high rise government housing. I saw no areas even approaching the poverty level of the American cities' "inner-city slum areas."

It was very apparent that Hong Kong was experiencing virtually full employment, tourism was booming, and by world standards - Hong Kong was experiencing an economic boom.

China. My visit to China was with a small group of tourists led by a highly knowledgeable guide from Macau. We entered China at a large border complex at the Macau - Zhongshan Province border. Receiving supposedly prearranged visa clearance was time-consuming and the whole process of having our passports checked and stamped by PRC border officials vividly portrayed the highly bureaucratic Chinese Government. Upon leaving the border complex we immediately entered the Zhuhai Special Economic Zone.

There was a large amount of newly-constructed buildings in this SEZ along with a large number of ten-fifteen story buildings under construction. Many of the newly-constructed buildings were apartment buildings, shopping complexes, or resort/hotel complexes for tourists. As far as one could see, the rolling, coastal terrain was being bulldozed level for new construction projects. When asked who was financing this construction, the guide replied that, "Hong Kong businessmen are financing all of this." The construction sites were characterized by large numbers of laborers and primitive construction methods such as mixing cement by hand, crushing rocks into gravel by hammer and pick, and moving dirt by-the-bucket.

The Zhuhai City market had an abundance of vegetables being sold by farmers and many small shops had dressed duck, geese, and chicken for sale. Food was inexpensive and many Hong Kong and Macau residents did their grocery shopping in China. The market, as well as the commercial area of the city, had a large number of young People's Liberation Army soldiers roaming around shopping. Their baggy, green uniforms dipicted no rank insignias. There was a total absence of automobiles in the city area, but, most Chinese rode a bicycle, wore a watch, and some carried a small radio.

After clearing a highway check-point station on the SEZ border (the PRC government doesn't allow free movement of its citizens into a SEZ), we immediately found ourselves in a rural area with rice paddies and vegetable gardens on both sides of the highway. All of the farming was being performed by human and animal labor (water buffaloes) with no visable signs of modern farm equipment. The villages in the area were primitive in nature, but upon visiting a village, I found that each home had a television set which was tuned to a Hong Kong, Macau, or government station. We were told that "Dallas" and "Dynasty" were their favorite American programs. Surprisingly, the appearance and furnishings in the homes were not all equal. We were informed by the guide that the upscale homes were occupied by Chinese who had relatives in Hong Kong that helped the occupants financially, the mid-scale appearance homes were the homes of the "new-rich entrepreneural farmers" or shop owners, and the more modest homes were occupied by common farm labor families.

It was apparent that this region in China was experiencing rapid economic and social changes. The people were well fed and clothed and were readily adapting to the new capitalist changes in China. The Hong Kong businessmen and investors have previously, and are presently, investing heavily in the SEZs adjacent to Hong Kong with the view of short and long-term financial gains as well as increased political leverage with the PRC Government.

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INTERVIEWS

Each of the interviews that I conducted in Hong Kong were for non-attribution. At the commencement of each interview I asked the interviewee to be completedly candid and forthright with me and I informed him or her that all remarks would be for non-attribution. Each interview synopsis will consist of a description of the interviewee and a summary of his/her remarks. The interviews are presented chronologically as they were conducted.

Interview No. 1

Description. A 50-60 year old male who held a British passport and was presently an executive with a Chamber of Commerce. He had previously served in the Hong Kong Government and travels extensively in China.

Summary. Most foreign businessmen are optimistic about Hong Kong's future, but the local Chinese businessmen will speak optimistically, but are really skeptical about the future. The Hong Kong businessman adheres to the rule "1/3 in - 2/3's out" for investing, i.e., make 1/3 of your investment in Hong Kong and 2/3's outside. 30,000 Chinese businessmen control the financial sector of Hong Kong. They do not want their families or heirs to live under communism and have sent their children to schools in the U.S., U.K. Canada, or Australia in the hopes that they will remain, marry, and work abroad. Many of the businessmen's wives have also gone to live with the children in hopes of acquiring foreign citizenship. 90% of the investment in Hong Kong is from Chinese businessmen - 10% from foreign businessmen. There is a 4-5 year payback period for most foreign investment in Hong Kong.

When Deng Xiaoping came into power he immediately established his power base by making many ministerial and military personnel changes. With 80% of China's population living in rural areas, he elected to begin his far-sweeping changes there. He still has opposition from conservatives that don't want quick development in China. During the first year of the negotiations, Deng and his fellow Chinese leaders created a lot of uneasiness with their intimidating statements, but as soon as Mrs. Thatcher made the decision to give up sovereignty over Hong Kong the situation improved and the environment stabilized as major points in the agreement leaked to the public.

The interviewee said that previously when he met with PRC businessmen and tried to discuss capitalist business practices, trade agreements, etc., they really didn't listen. Today they not only listen, but they take notes. The real question is - can "one country, two systems" work?

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Interview No. 2

Description. An approximately 40 year old Chinese with a U.S. passport. He left Hong Kong 20 years ago to be educated in the U.S. Attended New York University and was a professional international banker. Presently the director and general manager of a Chinese bank. This individual was so interested in my project that he offered to have our lunch brought to his luxuriously appointed office and spend the remainder of the day in discussions.

Summary. Most important to consider is what type of business an individual is engaged in, age, and what passport he holds. Trading has about a six month investment turnaround while the hotel business has an eight year investment turnaround. Wealthy Chinese are sending their children overseas to the U.S., Canada, and Australia for educations and passports. "Money is a passport!" Canada and Australia will grant citizenship to an investor and his family. Many Hong Kong businessmen were going to China to develop and manage business ventures there. The Japanese are investing heavily in Hong Kong. Jardine; Matheson made a big mistake by leaving Hong Kong because Hong Kong was at the front of a business boom. Funds were flowing back into Hong Kong and bank deposits and savings were up.

This bankers' greatest fear was that Hong Kong will not have the Chinese political leaders to lead and govern the SAR after 1997. The Hong Kong Chinese are apolitical and are interested in only making money. According to the agreement, in 1997 the Hong Kong governmental leaders must be Chinese and have lived in Hong Kong for seven years (expatriates will be allowed as consultants). Hong Kong's greatest challenge will be to educate a group of bright, young Chinese (40 years old or younger) who will be capable of leading Hong Kong in the future and not giving in to pressures for higher taxes and more social welfare-type expenditures. He was appalled that the British Government didn't realize early-on that China's "bottom line" was complete sovereignty over Hong Kong.

Interview No. 3

Description. A Chinese male, approximately 35 years old, presently a vice-president with a U.S. bank in the Hong Kong office. He was a Hong Kong citizen.

Summary. This banker did a lot of business traveling in China and was "cautiously, optimistic" about his personal future and the future of Hong Kong. His optimism was based on the developments that he had seen in the Special Economic Zones and other Chinese coastal cities. The PRC citizens really liked their new lifestyles and the economic conditions in China. Most of his friends were also optimistic about the future and would stick it out in Hong Kong. He said the older Hong Kong Chinese remember 1949, but that he had no memories of that. He reminded me that I had no memories of The Great Depression in the U.S., but that my father did, so my father and I probably had different views on economics, lifestyles, etc. He asked if I remembered Hainan Island from my Vietnam War service. He remarked that until recently Hainan Island was a military fortress; today it is a bastion of capitalism and is a future Taiwan.

Interview No. 4

Description. An approximately 60 year old Chinese man who was the assistant chief manager of a Chinese bank. He was a U.S. citizen and had previously worked for a U.S. bank in Hong Kong for over 6 years. When the U.S. bank attempted to transfer him back to the U.S. he came to work for a Chinese bank.

Summary. He began the interview by remarking that Hong Kong businessmen had already made their plans for 1997 and would continue them. He continued the interview by remarking that "Hong Kong has no future - no past. Hong Kong is only a place for making money!" The people of Hong Kong have no allegiance to any country, aren't interested in politics, and only want to make money. Hong Kong was not a place to live, not a place to play, only a place to make money. He had many PRC friends and traveled to China frequently. Corruption is bad in China, but he was optimistic on China's future. China needs Hong Kong more than Hong Kong needs China. China's infrastructure is so poorly developed that they must use others. China really needs Hong Kong's management expertise. China will never go back to its old ways - The Cultural Revolution - it is too far down the path of change to return.

His banks customers only had plans for 5 years out. No plans beyond. During the last two or three years many young professionals had left Hong Kong for Canada, Australia, or the U.S. No they did not go to the U.K. because you could not make money there. His own bank had lost several junior accountants to the "brain drain." Most of the young people that left Hong Kong did not have a lot of assets. Those with assets will stay because they can afford to leave at any time.

He had no fear of 1997. Since he was a U.S. citizen, business would be as usual for him. He felt that Hong Kong businessmen would continue to keep at least one family member abroad, either in school or working, and continue to invest abroad. There would be a gradual movement of Japanese, U.S., and PRC funds into Hong Kong and a gradual flow of Hong Kong Chinese funds out of the colony. There was a great deal of Japanese investment in Hong Kong. He closed by trying to describe the Hong Kong Chinese psyche by remarking that on the day after the HK dollar fell to $9.60 to U.S. $1, a U.S. Navy carrier pulled into Hong Kong for a liberty port visit. The rumor among the local Chinese was that the American carrier had come to evacuate the Americans.

Interview No. 5

Description. An American male, approximately 40-45 years old, working as a special assistant to the president and assistant general manager of a Chinese owned trading company.

Summary. The companies' major customer was China where it sold engineering equipment. Business had been very good the last two years. The company had no long term goals because of the possibility of China "closing-the-door." Most of their young Chinese employees were taking a "wait and see" attitude toward 1997.

Note: The Chinese owner of this company was originally scheduled for the interview, but had taken a business trip to China.

Interview No. 6

Description. A Chinese male, approximately 40 years old. He was the deputy chairman and chief manager of a Chinese bank. His business card noted that he was a Ph.D. His nationality was unknown.

Summary. We cannot afford to ignore the one billion person market in China. He spoke of the-selling one tube of lipstick to each Chinese woman syndrome. His bank's customers were all doing business in China. He thought the Hong Kong businessman's attitude was - let's make money while we can - and to take a wait-and-see-attitude toward China. The businessman was not interested in helping govern Hong Kong in the future. He had a - let someone else do it attitude. He remarked that now with an agreement, many foreign businessmen felt that Hong Kong was a better place to do business than Singapore since Singapore was governed by basically a dictatorship which could easily become unstable.

Interview No. 7

Description. A Chinese male, approximately 40 years old. A Ph.D. and director of a department at the University of Hong Kong. Educated in the U.K. Nationality unknown.

Summary. The agreement relieved the uncertainty about the next twelve years. Now that the agreement has been signed, Hong Kong will have an economic boom for the next 3-5 years. Sometime after 1990, as 1997 draws closer, there will be a crisis over Hong Kong. The Hong Kong people can only hope that the Hong Kong government and economic systems can stabilize prior to 1997 so Hong Kong can remain "separate" from China, yet still flexible enough to integrate with China in the post 1997 time frame.

Making money in Hong Kong has always been a 3-5 year proposition. No longer. Businessmen in Hong Kong will turn to enterprises with shorter cycles. The Japanese are investing in Hong Kong for short-term gains in banking, trading, etc. U.S. investors are going for the somewhat longer view in manufacturing. The university students just want to make the best of the situation. He characterized the University of Hong Kong students as brilliant, but not very worldly since they spend most of their teenage years studying in preparation for the competitive examination process for entry into the University's limited seats. Only 1%-3% of the aspiring students actually gain entry, and they are mostly students from public housing residing families. The wealthy Hong Kong Chinese send their children abroad for their education.

Interview No. 8

Description. A 47 year old Chinese male. The owner of a 60 employee international mail order business. A Hong Kong resident.

Summary. His overall attitude was "wait and see." He was converting his assets to liquid assets. He would not invest in any additional fixed assets until he was certain of the outcome of 1997. He could not afford to take any chances. He thought most other small businessmen felt as he did and were also playing safe by not investing in fixed assets.

Overall his business was good except with the Africans and Arabs. The Africans couldn't afford to pay him and the Arabs were slow to pay. He had a daughter in school in England. He had no place to go, so he had to stay in Hong Kong.

Interview No. 9

Description. A 43 year old Chinese male. Managing director of a 800 employee garment factory. He was educated in the U.K., had a Masters degree, and his children were in school in the U.K. He was very knowledgeable of the U.S., our government, and our economy. His conversation challenged me to the limit of my knowledge of U.S. congressional matters and economic policy. His nationality was unknown.

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Summary. Hong Kong businessmen had already positioned themselves for PRC control and would continue to do so. He was very bullish on Hong Kong's long term future. He thought 1984 was the peak of the U.S. business boom and he could already see a softening in his orders from the U.S. He would find a way to beat the U.S. rules of origins for textiles. Much Hong Kong Chinese money had flowed out, but Japanese, U.S., and European investments had replaced the Chinese funds. He was very much aware of the problems of the U.S. textile industry, but felt it was a severe mistake for the U.S. to move to a protective trade environment.

Interview No. 10

Description. A 30-35 year old American male. An assistant vice-president with a large U.S. brokerage firm.

Summary. His company was bullish on Hong Kong and would probably build a large high-rise office building in the central district. Most of his friends, both Chinese and American, were optimistic toward Hong Kong's future.

Interview No. 11

Description. A 40-45 year old Chinese woman holding an American passport. She was the owner of a 10 employee company that supplied carpeting and drapes to hotels in Hong Kong and China.

Summary. Her business was doing very well with all the new hotels being built in China and the Hong Kong hotels upgrading their appointments. She wanted nothing to do with the PRC communists. She was only in Hong Kong to make money and would stay for 10 more years then return to the U.S. Hong Kong only existed for making money. She would not invest in any fixed assets and would keep her business and personal finances very liquid. The recent Hong Kong elections were a sham and the PRC would put their own people in to govern Hong Kong in 1997. She visited friends in China frequently and had observed capital punishment on PRC television. She really disliked the PRC Government.

Interview No. 12

Description. A 50 year old British male. Managing director of the Hong Kong office of a major U.S. brokerage firm. He was responsible for 45 employees in Hong Kong and 30 in Singapore.

Summary. For himself and his friends it was "business as usual." 1997 is a long time off so make money while you can. He was glad he was in a business with no real fixed assets except office equipment. He thought the Chinese businessman was fickle and like to "put his head in the sand" as he did in the 1982-1984 time frame. Chinese businessmen are speculators, every thing is horse racing to them, even the international stock markets. He thought most British businessmen were positioning themselves to be flexible and "wait and see."

Interview No. 13

Description. A 50-55 year old Chinese male who spoke very poor English. The owner of a toy manufacturing company and a chairman or director of several local industrial, medical, and civic organizations. Apparently a Hong Kong resident.

Summary. He did business with the U.S. and Europe, but would do business wherever there was business. He was very bullish on Hong Kong and thought it was a good place to do business. Because of the labor shortage in Hong Kong he had established plants in China and was setting up a new plant in Shanghai. He found the Chinese in the PRC easy to do business with and felt the PRC workers were good and inexpensive labor. He plans on continuing to invest in China since it has a supply of labor. He said the labor shortage in Hong Kong had driven up wages. His company transported raw materials to China where the assembly was performed and the goods return to Hong Kong for inspection. He was concerned that Hong Kong would not have the trained people to govern in 1997. His children were in school in the U.S.

Interview No. 14

Description. A 30-35 year old Chinese male. Deputy managing director of a large garment manufacturing company. He had attended school in the U.K. for 6 years and was applying for a British passport.

Summary. His company was doing a lot of business with China and investing heavily in textiles manufacturing in China. He traveled to China at least once a week. China was a good source of cheap labor at 10-20% of Hong Kong labor cost. The China labor supply was unlimited and his company could never get enough labor in Hong Kong. The company had 2,000-3,000 employees in Hong Kong and another 4,000 spread throughout China, Singapore, and Malaysia. The future of the company was good, especially in textiles manufacturing.

He was concerned with the future and knew that money was a passport. If he didn't get a British passport he would invest in Canada or Australia and get a passport from either country. He was worried about his freedom, but thought that China would be very careful with Hong Kong since Taiwan was the real goal. China only wanted Hong Kong under its sphere of influence.

Interview No. 15

Description. A 35-40 year old Chinese male who was an executive with the Hong Kong Industry Department. Apparently an Hong Kong resident.

Summary. His job was to promote industrial investment in Hong Kong. He was aware that Hong Kong's industries must broaden their base and upscale their products in order to continue to compete in world markets. He briefed that Hong Kong had set up a Government laboratory accreditation system, opened a standards and calibration laboratory, and was increasing the capability of a microprocessor development laboratory. Hong Kong was trying to improve the educational system, particularly in the technical schools area.

Interview No. 16

Description. A U.S. Government official posted in Hong Kong.

Summary. China holds the future of Hong Kong. American businessmen see Hong Kong as the "Gateway to China" and are very positive about the future. He thought that the local people were trying to "milk Hong Kong dry" by running the machinery and assembly lines around-the-clock. He saw no growth in plant and equipment investment and thought the growth in capital investment was actually negative. Hong Kong business cycles are typically three year cycles so Hong Kong could have four cycles between now and 1997. He didn't think that Hong Kong businessmen were really making money and that much of their investment in China was not for profit reasons, but to get their extended families into the Special Economic Zones and get them a job. The new Basic Law of the SAR will be important since the agreement doesn't address commercial activities.

Interview No. 17

Description. The Hong Kong small businessman. The following summary is a synopsis of many short conversations with shop owners.

Summary. These individuals felt they did not have much to loose in the event that 1997 turned into a disaster except their personal freedom. They all wanted their personal freedom and the right to do business. They were indifferent to the PRC government and would "wait and see." They remarked that the medium-size businessman had the most to loose after 1997 because he owned fixed assets yet he didn't have the capital to leave Hong Kong. Some of the young shop owners hoped that they could acquire assets during the next twelve years so they would have the choice of whether to go or stay in Hong Kong.

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CHAPTER 8

CONCLUSIONS

The government of the People's Republic of China will ultimately determine the future of Hong Kong. If the PRC continues along its present path of economic development, the government does not return to its former radical ways, and the Western countries of the world do not move toward a severely protective trade environment, then the future of Hong Kong is excellent. All three of these conditions must be present in the 1985-1997 time frame for Hong Kong to continue as an economic success. To expect all of these conditions to exist concurrently, may be expecting too much of the present world order. The Hong Kong businessman, both Chinese and expatriate, is vividly aware of these conditions and his plans have been, and will continue to be based on the variances of these conditions. As William Jackson, former chief of the Foreign Commercial Service Office in Hong Kong, has written:

> "Despite the overall modernizing trend in China (as now seen by the United States), the process even under Deng's leadership is most likely two steps forward and one back. Unknown is the length of the steps and the time between steps."[68]

On the-other-hand, Don Dougherty of The Hong Kong and Shanghai Banking Corporation's New York Branch recently remarked:

> "Remember, China must save face.
> ....
> What other country is guaranteed its status for over 60 years?"[69]

The opinions regarding Hong Kong's future vary, as these two comments do, over a wide spectrum of thought, making the Hong Kong businessman's future plans equally as circumspective.

These conclusions will categorize Hong Kong businessmen into two groups - Chinese or expatriate. The Chinese businessmen will be addressed as wealthy, middle class (by American standards), or as a small businessman.

The <u>wealthy businessman</u> has already made his plans for the 1985-1997 time frame and he will continue to improve or adjust his plans depending on the China connection and the political situation in China. He will continue to educate his children abroad in order to give them the opportunity to gain citizenship in the U.S., Canada, Australia, or perhaps the U.K. If he himself does not hold a passport from one of these countries, he will keep a family member abroad to give himself the opportunity to gain citizenship through his own financial investments, or as an extended family member. He will continue to follow the investment guidelines of - "One foot in - one foot out" or "1/3 in - 2/3s out." If appropriate, he will invest in China looking for long-term growth possibilities as well as a hedge with the PRC Government. In short, he will make money in Hong Kong as long as there is money to be made.

The middle class businessman is in the most precarious situation. He may not have the funds to acquire another passport through foreign investment nor have the opportunity to move to a Western country and gain citizenship as an extended family member. He will be very cautious regarding investments in Hong Kong, particularly in fixed assets, and most likely keep his assets liquid. He will possibly transition to businesses that have short profit cycles such as trading and attempt to reduce the value and number of fixed assets involved in any business venture. He can only hope that during the next twelve years his financial situation will improve to the point that he is able to protect himself with another citizenship.

The small businessman in Hong Kong is there to stay and will make the most of it. He most likely owns or rents a small shop of some type and his future depends on tourism and an expanding economy. He will do the very best he can to improve his living standard prior to PRC control and hopes that he can remain free to live and conduct business as he presently does. He can accept radical PRC control most easily of all businessmen since he has the least to loose.

For the expatriate businessman Hong Kong is "business as usual." He will stay and make money, most likely invest in China, but always look toward the future. Twelve years is a long period which will include several business cycles so he will take advantage of these. He will use his Hong Kong Chinese friends as a conduit to China for himself as well as for any consulting capacity he might become engaged in.

The last point that is important in this conclusion is the different perspectives that older and younger Chinese businessmen hold. Older businessmen are more cautious and pessimistic towards PRC control of Hong Kong and the future economic environment. After all, a country with a per capita GNP of about U.S. $300 is gaining control of a city-state with a per capita GNP of over U.S. $5,000. Younger businessmen are at least "cautiously optimistic" about the future and think that over the next twelve years China will continue to make positive gains both politically and economically.

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Author's Comment: For me, this concludes one of the most fascinating periods of my professional career. The opportunity to research and study the recent developments in Hong Kong and China and then conduct on-site research in both areas was educational and enlightening. Hong Kong has completed the first quarter of a seventeen year game (1980-1997). The quarter was rough and Hong Kong was bruised. As she starts the second quarter she has taken the lead, but the second half will determine the winners. I can only wish the participants the very best, both economically and politically.

FOOTNOTES

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Author's Note: All interviews summarized in Chapter 7 were conducted in Hong Kong during the 19-26 March 1985 time frame. These interviews were conducted for non-attribution. With the permission of the interviewee, the author will provide the interviewee's name, position, and company.

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