

## HONG KONG 1997

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By the time troops of China's People's Liberation Army join in the ceremonies to mark China's resumption of sovereignty over Hong Kong on July 1, 1997, many of the most critical changes defining Hong Kong's future will already have been accomplished. A shadow legislature, handpicked by a Beijing-appointed committee, began meeting across the border in Shenzhen on January 25. Hong Kong's next chief executive, Tung Chee-hwa, who was also picked by Beijing, has gone on record strongly backing proposals to do away with twenty-five of Hong Kong's laws which guarantee human rights, political expression, and free speech. An eleven-member inner cabinet that will run Hong Kong after China's resumption of sovereignty is made up almost entirely of pro-Beijing figures, including a former official from the Hong Kong office of the "New China News Agency," which up to now has acted as China's informal embassy in Hong Kong. Beijing may be sincere in its contention that Hong Kong can continue as a Special Autonomous Region ("S.A.R.") under the principle of "one country, two systems," but it is not taking any chances when it comes to deciding who is going to run the system.

To see how these developments will affect daily life in Hong Kong it may be necessary to wait six months to a year. The question which Hong Kong's six-million citizens are pondering in the final countdown to Britain's withdrawal is whether the territory's vitality and free wheeling entrepreneurial spirit will survive the inevitable osmosis that threatens to take place when a wealthy, but politically weak, society comes into direct contact with one that is both poor and backwards but also overwhelmingly powerful. It may still be too early to predict how the

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unknown variables in Hong Kong's situation will ultimately play out. What is clear is that Hong Kong's future will depend on a number of complex relationships with different political forces.

Marc Faber, a Hong Kong-based investor who publishes a provocative and frequently humorous financial newsletter called the "Gloom and Doom Report," compares Hong Kong's predicament to that of a fat mouse locked in a room with a ravenous cat. It is in the mouse's interest, Faber points out, to make certain that the cat remains well-fed.<sup>1</sup> Faber's image is apt, but it may not go far enough. To push the metaphor a bit, there could turn out to be more than one cat in the room, a development that would complicate the mouse's life considerably. An example of this kind of scenario is provided in a recent study by Political and Economic Risk Consultancy, Ltd., which suggests that the People's Liberation Army could very well become a force to contend with along with the civilian authorities in Beijing.<sup>2</sup> If the PLA were to exert political pressure in order to protect its own business interests, local business interests might try to play the PLA, Beijing, and the S.A.R.'s new chief executive off against each other in the hopes of gaining commercial advantages. The result could be a degeneration into administrative gang warfare with several factions vying for power.

Probably the single greatest factor that makes it difficult to predict Hong Kong's future is the difficulty of predicting China's future in the wake of the death of its political patriarch, Deng Xiaoping. Prior to his death, Deng was clearly too incapacitated to play any active role in deciding policy, but many of the people he brought to power continued to exert significant influence. To a certain extent, these leaders formed a sort of shadow administration with no leader which was essentially frozen in time. Their legitimacy stemmed from policies created by Deng. They could recycle Deng's speeches, but they lacked the legitimacy to go much further. Even China's president Jiang Zemin, who has clearly tried to put his own stamp on the government, was limited by the situation. As long as Deng was alive, Jiang was forced to remain in the shadow not just of the man, but also of his policies. The resulting paradox was that this state of semi-paralysis often

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<sup>1</sup> Telephone interview with Marc Faber (Mar. 7, 1997).

<sup>2</sup> See POLITICAL AND ECONOMIC RISK CONSULTANCY, 1996 COUNTRY STUDY OF HONG KONG (1996).

forced Chinese leaders to take a harsher stand than they might otherwise have chosen. In terms of domestic Chinese politics, no one wanted to risk appearing less forceful than Deng might have been or to show any sign of deviating from his political line. The British understood early on that this was one of the main reasons that negotiations over Hong Kong usually ended in an acrimonious stalemate. As one British negotiator put it, "Only Deng would have been secure enough to make compromises."

Deng's death does not necessarily make Hong Kong's situation any easier. Not only is there uncertainty about who will ultimately take the reins of power, but there is also the fact that Deng's disappearance will very likely bring on a fundamental structural change in China's leadership with a number of factions vying for power. In that scenario, Hong Kong's new chief executive will have to pick his alliances carefully.

Given the enormous number of unpredictable variables in its future, it is not surprising that Hong Kong's population feels increasingly nervous. Chinese officials haven't helped matters much. In the last year, there has been a nearly constant stream of conflicting remarks concerning individual rights, freedom of the press and the rule of law, culminating with the recent decision to drop many of the protections legislated into the law by the British. The underlying message is clear: China and Britain have different concepts concerning the rights that should be granted to individual citizens, and anyone who wants to cause trouble by challenging Beijing's policies risks being dealt with severely. Chinese dissidents who escaped to Hong Kong after the massacre at Tiananmen Square have understood the message; at least 90 have already been granted political asylum elsewhere.

At this point it is probably safe to say that a significant sector of public opinion sees much of the recent squabbling over the future of Hong Kong's political institutions as something of a side show. That is partly because the public has been excluded from politics for most of Hong Kong's history. Until a few years ago, ordinary citizens were not entitled to vote for members of Legco; instead, they were hand picked by the governor or chosen by functional constituencies representing the major institutions in Hong Kong's business world. The average citizen was content to live under what turned out to be a relatively benevolent system and concentrate on Hong Kong's real passion, which is business.

The important question in many people's minds now is

whether it will be possible to keep on concentrating on business if China insists on cracking down on individual liberties. Pro-democracy activists insist that inhibiting Hong Kong's free lifestyle will have a serious impact on Hong Kong's dynamic approach to business. Many westerners agree. What has made Hong Kong, they insist, is its human talent, and if that goes, everything else will fall apart. British journalist Robert Cottrell captures this notion in his book, *The End of Hong Kong*. "Hong Kong," Cottrell writes, "was created not by Britain and China, but by Britons liberated from the obligations of Britain and by Chinese liberated from the obligations of China."<sup>3</sup>

Similar arguments have appeared in countless articles both in Hong Kong and in other countries. But skeptics charge that this line of reasoning may be missing an important point — if Hong Kong is booming today, it is not so much because of its brilliant business men as it is because China has finally decided to open itself to world trade with a vengeance. Hong Kong is strategically positioned to get a major cut of the action. Hong Kong is, quite simply, the best way for westerners to get into China, and it is largely that which makes it the powerhouse that it is.

The argument that Chinese blunders on human rights and press freedoms will put an end to Hong Kong's role as an important city for business is weakened considerably by the fact that many foreign companies are leapfrogging over Hong Kong and setting up operations directly in Shanghai and Beijing. Where enormous profits are concerned, businessmen will put up with a great deal, and there is no reason to expect that Hong Kong will be any different. Hong Kong's real advantage, and the ingredient that will probably keep it from being surpassed by Shanghai for some time to come, is its well-oiled infrastructure. In contrast, Shanghai has developed so chaotically in the last few years that many people find it hard to get to work. Hong Kong has an added advantage of having one of China's best deep water ports, while Shanghai is situated on the banks of a muddy river.

Despite the incoming regime's ominous statements on human rights and political freedoms, there are a number of mitigating factors that should also make at least the early stages of Hong Kong's transition go fairly smoothly and give Hong Kong's next government the maneuvering space it needs to establish at least a

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<sup>3</sup> ROBERT COTTRELL, *THE END OF HONG KONG* 4 (1993).

limited autonomy. The first is that, as far as business is concerned, Hong Kong's integration with China is already well advanced. The Bank of China already issues Hong Kong dollars along with two British-owned banks. Beijing-owned holding companies, and in particular CITIC-Pacific, the Hong Kong subsidiary of China's huge state-owned China Industrial Trust and Investment Corporation, owns substantial holdings in hundreds of Hong Kong companies. For their part, many foreign companies have openly welcomed Chinese investment as a protection against the future.

A second factor that should help ease the transition is that Britain has gone out of its way in the last few years to give Hong Kong's administration a separate identity. For several years, Hong Kong has hired its own civil servants on a separate track from the Foreign office. The territory maintains its own trade offices in major world cities and has negotiated its own trade agreements for a long time. Ironically, this was partly at the insistence of British textile manufacturers who feared that Hong Kong would undercut them if it were considered an actual part of Britain. Gerald Segal, a senior analyst at the London-based Institute of Strategic Studies and author of *The Fate of Hong Kong*, points out that once Britain realized that it was not going to be able to keep Hong Kong, it set about discretely trying to give certain Chinese officials an added advantage in establishing themselves in the future hierarchy.<sup>4</sup> The gamble was that, once in position, these officials would be more likely to be friendly to the west.

These strategies sound reasonable enough; whether they will actually work is another question. Few outgoing British nationals seem genuinely convinced that Britain will have much of a future in Hong Kong once the Chinese are in control. One of the jokes often repeated in British expatriate circles these days captures the mood: "Perhaps people wouldn't keep talking about killing the goose that laid the golden egg, if there weren't so many decapitated geese lying around."

Even if the transition proceeds smoothly, no one has any illusions about the fact that Hong Kong is going to be caught up in a wrenching reversal of its political and cultural orientation. Instead of a western outpost on the flank of China, Hong Kong is already becoming a kind of Asian neutral zone in which

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<sup>4</sup> See GERALD SEGAL, *THE FATE OF HONG KONG* (1993).

westerners appear as supplicants.

The reversal is already placing many Chinese in Hong Kong's current hierarchy in an uncomfortable position. They are expected to continue to show loyalty to the outgoing British administration, but at the same time they have had to start establishing a relationship with the people who will soon be running Hong Kong. The actions of Christine Loh, one of the most articulate members of Legco, demonstrate the effects of this unusual situation. Just a year ago, Loh was adamantly opposed to China's handling of the transition, but in April she began to abstain from votes critical of China. In September, she joined a committee of the Better Hong Kong Foundation, a pro-Beijing business group. The message was clear: to stay active in Hong Kong means making an arrangement of one kind or another with the new regime.

For westerners trying to make it in Hong Kong, the rules have already started to change. Many Hong Kong companies are searching for qualified Asian staff to replace suddenly less fashionable Caucasians. The Chinese stockbroker wife of an Australian businessman recently remarked to her husband, "you are finished here. This is our time to run things." She was not asking for a divorce, she was merely making a statement of fact. Another sign of shifting loyalties is a less than subtle rewriting of history. A Chinese-American couple who recently visited Hong Kong were amazed at how in Hong Kong Chinese conversations the "barren rock" which the British believe they turned into an economic miracle now appears to be evolving, thanks to pro-Beijing propaganda, into a weight used by colonialists to prolong Asian poverty.

All of this is hard for most westerners to swallow, and it is particularly hard to digest for anyone who bought into governor Chris Patten's last minute efforts to set up some semblance of democratic institutions in Hong Kong. Patten's failure to connect with Chinese in both Beijing and Hong Kong's business community is one of the paradoxes of the colony's last days. Although Patten's efforts at democratic reforms appear to have been genuine, it is safe to say that few Hong Kong Chinese businessmen will mourn his departure.

Patten, who comes from a parliamentary background in which issues are clearly defined through public debate, hoped that involving the public in the process of government would turn out

to be Hong Kong's greatest protection. To many Hong Kong Chinese, however, Patten's confrontational approach appeared divisive and hollow, especially since England made it quite clear that it could not do anything to guarantee that any democratic reforms would be maintained after China took over. Basically suspicious of the English from the start, Chinese officials in Beijing simply dismissed Patten's reform proposals as nothing more than an attempt to change the rules of the game now that England no longer has anything to gain. In the final countdown to the turnover, Patten has become largely irrelevant.

For most of the rest of the world, the main question to be asked about Hong Kong now is whether it will be possible to keep on doing business as before — and will it be worth it, given the restrictions and obstacles that China seems likely to impose? The most probable answer is that as long as China needs western capital it will try to make Hong Kong bearable. The market in China promises to be so enormous, not just because it has a billion potential consumers, but because to survive China is going to have to build the infrastructure for a modern country. It is a safe bet that the potential profits involved in doing this will draw many businesses regardless of the social consequences. A number of important western firms have opted to stay on in Hong Kong despite the turnover just to be near the action.

In the final analysis, business has really been what Hong Kong is all about. A frequent quip from young traders is, "if you aren't making money, what are you doing here?" It is hard to imagine any place since America's Wild West that offers such dynamic business opportunities. To even a casual observer, China now looks very much the Wild East. Just as our own robber barons exploited the Wild West, China and Hong Kong are developing a broad sampling of their own swashbucklers.

In the only real game in town, it is not the written law that counts as much as the player's understanding of the undercurrents and dynamics of power — and the carefully built relationships between people that the Chinese refer to as *Guang Xi*, or connections. It is quite possible that the most important change that will take place on July 1 will be the entry of Hong Kong into the game for real. Life may not be as agreeable or secure as it was under the British, but, for the first time, Hong Kong will be immersed in its true environment without cultural walls to set it off. Hong Kong will no longer be a western enclave, but will

not quite be a no-man's land, either. It may not be as comfortable as it once was, but it will still be a focal point for business in China — and not a bad place to become involved in the action.