

Ronald Reagan Presidential Library  
Digital Library Collections

---

This is a PDF of a folder from our textual collections.

---

**Collection:** Laux, David N.: Files  
**Folder Title:** China – Foreign Relations – Hong  
Kong (03/02/1982 – 06/30/1982)  
**Box:** RAC Box 13

---

To see more digitized collections visit:

<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:

<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: [reagan.library@nara.gov](mailto:reagan.library@nara.gov)

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** LAUX, DAVID: FILES

**Withdrawer**

CAS 6/9/2010

**File Folder** CHINA-FOREIGN RELATIONS-HONG KONG (3/2/82-6/30/82)

**FOIA**

M09-299/1

**Box Number** 13

COLLINGS

4

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
92241	PAPER	RE HONG KONG <i>R</i> 12/20/2017 M299/1	2	ND	B1 B3
92242	CABLE	232104Z MAR 82 <i>D</i> 12/20/2017 M299/1	1	3/23/1982	B1 B3
92243	CABLE	HONG KONG 09400 <i>R</i> 6/21/2012 M299/1	2	6/14/1982	B1
92244	CABLE	HONG KONG 10056 <i>R</i> 6/21/2012 M299/1	1	6/24/1982	B1
92245	MEMO	HERMAN COHEN TO THOMAS SHOESMITH RE THE FUTURE OF HONG KONG <i>PAR</i> 12/20/2017 M299/1	3	6/25/1983	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

UNCLASSIFIED  
Department of State

TELEGRAM

PAGE 01 HONG K 03121 01 OF 03 021325Z 5979  
ACTION EB-08

HONG K 03121 01 OF 03 021325Z

INFO OCT-00 ADS-00 AID-07 INR-10 EUR-12 SS-10 CIAE-00  
EA-12 H-01 NEA-07 NSC-01 NSAE-00 LAB-04 TRSE-00  
AIT-02 OPIC-07 CEA-01 OMB-01 STR-13 SIL-01 FRB-01  
XMB-04 ICAE-00 SP-02 /104 W

-----144117 021436Z /43

R 021109Z MAR 82  
FM AMCONSUL HONG KONG  
TO SECSTATE WASHDC 9620  
INFO AMEMBASSY BANGKOK  
AMEMBASSY BEIJING  
AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY CANBERRA  
AMEMBASSY COLOMBO  
AMCONSUL GUANGZHOU  
AMEMBASSY JAKARTA  
AMEMBASSY LONDON  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY MANILA  
AMEMBASSY NEW DELHI  
AMEMBASSY RANGOON  
AMEMBASSY ROME  
AMEMBASSY SEOUL  
AMCONSUL SHANGHAI  
AMEMBASSY SINGAPORE  
AMCONSUL SYDNEY  
AIT TAIPEI  
AMEMBASSY TOKYO  
AMCONSUL ZURICH  
USDOC WASHDC

UNCLAS SECTION 01 OF 03 HONG KONG 03121

E.O. 12065: N/A  
TAGS: EFIN, ETRD, HK  
SUBJECT: TWO CHEERS FOR HONG KONG'S FY82/83 BUDGET.

REF: (A) HONG KONG 1838, (B) HONG KONG A-08

1. SUMMARY: IN HIS MAIDEN BUDGET SPEECH, HONG KONG'S NEW FINANCIAL SECRETARY, JOHN BREMRIDGE, PORTRAYED A CHEERFUL OUTLOOK FOR THE HONG KONG ECONOMY WITH HEALTHY OVERALL GROWTH AND POPULAR TAX CONCESSIONS. HE PREDICTED THE HONG KONG ECONOMY WILL CONTINUE ITS STRONG GROWTH TREND IN 1982 AND REGISTER EIGHT PERCENT REAL GROWTH IN GROSS DOMESTIC PRODUCT (GDP). PUBLIC EXPENDITURES (OVER 24 PERCENT OF GDP IN 1982) WILL CONTINUE TO OUTSTRIP OVERALL ECONOMIC EXPANSION. THE FINANCIAL SECRETARY PROVIDED A REAL BOOST TO HONG KONG'S POSITION AS AN INTERNATIONAL FINANCIAL CENTER (SEE REFERENCES). HE ABOLISHED ALL INTEREST WITHHOLDING TAX ON FOREIGN CURRENCY DEPOSITS AND REDUCED THE INTEREST TAX ON HONG KONG DOLLAR DEPOSITS. EVEN WITH GENEROUS TAX CONCESSIONS, THE HONG KONG GOVERNMENT (HKG) WILL CONTINUE TO ENJOY A FISCAL SURPLUS OF U.S. DOLLAR 390 MILLION (HK\$2.3 BILLION WITH AN EXCHANGE RATE AT US\$1.00 EQUALS HK\$5.9 ON FEBRUARY 24, 1982).

COMMENT: OVERALL, HONG KONG REACTED WITH CHEERS FOR BREMRIDGE'S FIRST BUDGET MESSAGE, WHICH SHOWED SOME CONCERN FOR THE PLIGHT OF THE COMMON MAN. WITH THE NEW TAX CHANGES, WE EXPECT HONG KONG'S ROLE AS A FUNDING CENTER FOR INTERNATIONAL FINANCE TO EXPAND, PARTICULARLY VIS-A-VIS SINGAPORE. THE ONE MAJOR CONCERN WITH THE BUDGET, HOWEVER, IS THAT HONG KONG'S LARGE GOVERNMENT SHARE OF GDP MAY LIMIT THE ECONOMY'S ABILITY TO RESPOND TO EXTERNAL ECONOMIC CHALLENGES. END SUMMARY.

2. ECONOMIC PERFORMANCE AND OUTLOOK. DESPITE SLUGGISH INTERNATIONAL ECONOMIC CONDITIONS, THE HONG KONG ECONOMY DID BETTER THAN EXPECTED IN 1981. REAL GDP GROWTH WAS 10 PERCENT LAST YEAR, WITH A 7.6 PERCENT REAL INCREASE IN DOMESTIC EXPORTS. THE ECONOMY BEGAN TO SLOW DOWN IN THE SECOND HALF OF 1981 AND SHOWED SIGNS OF A RETURN TO ITS TRADITIONAL EXPORT-LED GROWTH PATTERN IN THE BEGINNING OF 1982. THE FINANCIAL SECRETARY FORECAST SEVEN PERCENT REAL GROWTH IN HONG KONG'S DOMESTIC EXPORTS IN 1982, WITH RE-EXPORTS UP 20 PERCENT. THIS ADDS UP TO AN ELEVEN PERCENT REAL INCREASE IN TOTAL EXPORTS. BREMRIDGE PREDICTED REAL GDP GROWTH IN 1982 OF EIGHT PERCENT. SINCE THE EXPANSION OF HONG KONG'S LABOR FORCE BY IMMIGRATION HAS NOW SUBSIDED, THE PER CAPITA OUTPUT OF EMPLOYED LABOR IS EXPECTED TO REGISTER A GREATER INCREASE THIS YEAR THAN LAST YEAR. BREMRIDGE PREDICTED HONG KONG WILL ENJOY A LOW UNEMPLOYMENT RATE IN THE THREE TO 3.5 PERCENT RANGE DURING 1982. HE EXPECTS HONG KONG'S INFLATION RATE TO ABATE FROM 15 PERCENT IN 1981 TO 12 PERCENT IN 1982--A RESULT OF THE SLOW DOWN IN DOMESTIC CREDIT EXPANSION AND THE LEVELING OFF OF PROPERTY PRICES.

3. THE PERFORMANCE AND OUTLOOK OF THE HONG KONG ECONOMY CAN BE SUMMARIZED AS FOLLOWS:

-	ESTIMATES AND FORECAST OF	
-	HONG KONG'S KEY ECONOMIC INDICATORS	
-	FOR 1981 AND 1982	
-		
	1981	1982
GROWTH RATE OF:	(ESTIMATE)	(FORECAST)
-		
GROSS DOMESTIC PRODUCT	PLUS 10 PERCENT	PLUS 8 PERCENT

HK/Econ

DK  
SAR

UNCLASSIFIED



UNCLASSIFIED  
Department of State

TELEGRAM

2

HONG K 03121 02 OF 03 021329Z

5870

HONG K 03121 02 OF 03 021329Z

EB-08

O	OCT-00	ADS-00	AID-07	INR-10	EUR-12	SS-10	CIAE-00
	EA-12	H-01	NEA-07	NSC-01	NSAE-00	LAB-04	TRSE-00
	AIT-02	OPIC-07	CEA-01	OMB-01	STR-13	SIL-01	FRB-01
	XMB-04	ICAE-00	SP-02	/104 W			

-----144160 021342Z /43

R 021109Z MAR 82  
FM AMCONSUL HONG KONG  
TO SECSTATE WASHDC 9621  
INFO AMEMBASSY BANGKOK  
AMEMBASSY BEIJING  
AMEMBASSY BERN  
AMEMBASSY BOHN  
AMEMBASSY CANBERRA  
AMEMBASSY COLOMBO  
AMCONSUL GUANGZHOU  
AMEMBASSY JAKARTA  
AMEMBASSY LONDON  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY MANILA  
AMEMBASSY NEW DELHI  
AMEMBASSY RANGOON  
AMEMBASSY ROME  
AMEMBASSY SEOUL  
AMCONSUL SHANGHAI  
AMEMBASSY SINGAPORE  
AMCONSUL SYDNEY  
AIT TAIPEI  
AMEMBASSY TOKYO  
AMCONSUL ZURICH  
USDOC WASHDC

UNCLAS SECTION 02 OF 03 HONG KONG 03121

TRADE:

- DOMESTIC EXPORTS	PLUS 7.6 PERCENT	PLUS 7 PERCENT
- RE-EXPORTS	PLUS 28 PERCENT	PLUS 20 PERCENT
- IMPORTS	PLUS 11 PERCENT	PLUS 12 PERCENT
- NET EXPORTS OF SERVICES	PLUS 4 PERCENT	PLUS 5 PERCENT

INFLATION:

- MEASURED BY CONSUMER PRICE INDEX	PLUS 15 PERCENT	PLUS 12 PERCENT
- MEASURED BY GDP DEFLATOR	PLUS 10 PERCENT	PLUS 9 PERCENT

4. THE FY82/83 BUDGET.  
INDUSTRIALISTS, BANKERS AND WAGE EARNERS WILL ALL BENEFIT FROM THE PROPOSED U.S. DOLLAR 232 MILLION (HK\$1.3 BILLION) TAX CUTS. IN AN EFFORT TO STIMULATE LOCAL INDUSTRIAL INVESTMENT, THE HKG RAISED THE INITIAL TAX DEPRECIATION ALLOWANCE FOR EQUIPMENT FROM 35 TO 55 PERCENT. THE GOVERNMENT WILL ALSO CALCULATE THE INDUSTRIAL BUILDINGS TAX DEPRECIATION ALLOWANCE BY REFERENCE TO THE PURCHASE PRICE RATHER THAN THE CONSTRUCTION COST. THE HKG INCREASED THE PERSONAL TAX EXEMPTION ALLOWANCE FROM HK\$15,000 TO HK\$20,500 FOR A SINGLE PERSON, AND FROM HK\$30,000 TO HK\$41,000 FOR MARRIED COUPLES. EFFECTIVE FEBRUARY 25, 1982, THE HKG ABOLISHED ALL WITHHOLDING INTEREST TAX ON FOREIGN CURRENCY DEPOSITS. AT THE SAME TIME, THE GOVERNMENT REDUCED THE INTEREST TAX ON HONG KONG DOLLAR DEPOSITS FROM 15 TO 10 PERCENT.

THESE MEASURES WILL FOSTER HONG KONG'S ROLE AS AN INTERNATIONAL FINANCIAL CENTER AND WILL ENABLE HONG KONG TO COMPETE MORE SUCCESSFULLY WITH SINGAPORE TO LURE FOREIGN CURRENCY DEPOSITS.

5. EVEN WITH THE TAX CUTS, THE GOVERNMENT'S TOTAL REVENUE FOR FY82/83 IS ESTIMATED AT U.S. DOLLAR 6.4 BILLION (HK\$37.8 BILLION). OVER 31 PERCENT OF THE HKG'S REVENUE WILL COME FROM LAND SALES. LAND PRODUCTION IS A TOP BUDGET PRIORITY, NOT ONLY BECAUSE LAND SALES GENERATE SUBSTANTIAL INCOME, BUT ALSO BECAUSE LAND IS THE SCARCEST RESOURCE IN HONG KONG. OTHER RECURRENT REVENUE (MAINLY INDIRECT TAXES) AND PROFIT TAX WILL CONTRIBUTE 24.3 PERCENT AND 21.3, RESPECTIVELY, TO THE HKG'S INCOME IN FY32/83.

6. GOVERNMENT EXPENDITURE ESTIMATES TOTAL U.S. DOLLAR SIX BILLION (HK\$35.5 BILLION). PUBLIC EXPENDITURES ARE EXPECTED TO INCREASE BY 10.7 PERCENT, IN REAL TERMS OR 22 PERCENT IN MONEY TERMS. THIS MEANS THAT THE PUBLIC SECTOR WILL GROW AT A FASTER PACE THAN THE ECONOMY (EIGHT PERCENT IN REAL TERMS) AND WILL ACCOUNT FOR AN INCREASINGLY LARGER SHARE OF GDP. SOCIAL AND COMMUNITY SERVICES EXPENSES, WHICH DRAW THE LION'S SHARE OF GOVERNMENT EXPENSES, WILL ACCOUNT FOR 39.2 PERCENT AND 27.4 PERCENT, RESPECTIVELY, OF TOTAL PUBLIC EXPENDITURE IN FY82/83. IN THE OPENING SESSION OF HONG KONG'S LEGISLATIVE COUNCIL LAST OCTOBER, GOVERNOR MACLEHOSE STRESSED THE GOVERNMENT'S INITIATIVES TO IMPROVE SOCIAL SECURITY, EXPAND MEDICAL SERVICES AND PROVIDE MORE PUBLIC HOUSING. PUBLIC SPENDING WILL KEEP RISING WITH THESE UNDERLYING COMMITMENTS.

UNCLASSIFIED



Department of State

TELEGRAM

3

PAGE 01 HONG K 03121 03 OF 03 022105Z 7692  
 ACTION EB-08

HONG K 03121 03 OF 03 022105Z

INFO OCT-00 ADS-00 AID-07 INR-10 EUR-12 SS-10 CIAE-00  
 EA-12 H-01 NEA-07 NSC-01 NSAE-00 LAB-04 TRSE-00  
 AIT-02 OPIC-07 CEA-01 OMB-01 STR-13 SIL-01 FRB-01  
 XMB-04 ICAE-00 SP-02 /104 W

ELIMINATION OF THE TAX ON FOREIGN CURRENCY INTEREST AS THE GREATEST BOOST TO HONG KONG'S INTERNATIONAL FINANCIAL STANDING SINCE THE INITIAL LIFTING OF THE MORATORIUM ON BANK LICENSES. HOWEVER, AS A RESULT OF SUCH DEVELOPMENTS, HONG KONG MONETARY AFFAIRS (SUCH AS LOCAL INTEREST RATES, AND THE HONG KONG DOLLAR'S EXCHANGE VALUE) WILL BE MORE VULNERABLE IN THE FUTURE TO CHANGES IN ECONOMIC CONDITIONS OUTSIDE HONG KONG. LEVIN

-----157711 022113Z /66

R 021109Z MAR 82  
 FM AMCONSUL HONG KONG  
 TO SECSTATE WASHDC 9622  
 INFO AMEMBASSY BANGKOK  
 AMEMBASSY BEIJING  
 AMEMBASSY BERN  
 AMEMBASSY BONN  
 AMEMBASSY CANBERRA  
 AMEMBASSY COLOMBO  
 AMCONSUL GUANGZHOU  
 AMEMBASSY JAKARTA  
 AMEMBASSY LONDON  
 AMEMBASSY KUALA LUMPUR  
 AMEMBASSY MANILA  
 AMEMBASSY NEW DELHI  
 AMEMBASSY RANGOON  
 AMEMBASSY ROME  
 AMEMBASSY SEOUL  
 AMCONSUL SHANGHAI  
 AMEMBASSY SINGAPORE  
 AMCONSUL SYDNEY  
 AIT TAIPEI  
 AMEMBASSY TOKYO  
 AMCONSUL ZURICH  
 USDOC WASHDC

UNCLAS SECTION 03 OF 03 HONG KONG 03121

7. DESPITE THE RAPID EXPANSION IN PUBLIC EXPENDITURE, THE HKG HAS NO DIFFICULTY BALANCING ITS BUDGET. AFTER ALLOWING U.S. DOLLAR 1.9 BILLION (HK\$11 BILLION) FOR A NEWLY ESTABLISHED CAPITAL WORKS RESERVE FUND, THE HKG STILL ENVISAGES A U.S. DOLLAR 390 MILLION (HK\$2.3 BILLION) SURPLUS FOR FY82/83. ON APRIL 1, 1982, HONG KONG'S FREE FISCAL RESERVES WILL STAND AT ABOUT U.S. DOLLAR 2.8 BILLION (HK\$16.5 BILLION), AFTER REDUCTION FOR THOSE RESERVES KEPT FOR THE GOVERNMENT'S CONTINGENT LIABILITIES.

8. COMMENT.

(A) HONG KONG'S ECONOMIC OUTLOOK IS HEALTHY. THE GOVERNMENT'S INCREASINGLY LARGER SIZE, HOWEVER, POSES A POTENTIAL PROBLEM. HONG KONG'S PUBLIC SECTOR, WHICH ACCOUNTS FOR 24 PERCENT OF GDP, IS VERY LARGE BY WORLD STANDARDS. AT PRESENT, HONG KONG CAN EASILY MEET INCREASED EXPENDITURES AND STILL ACHIEVE A HANDSOME SURPLUS. HOWEVER, THE RAPID GROWTH OF THE PUBLIC SECTOR WILL REDUCE THE HONG KONG ECONOMY'S FLEXIBILITY IN THE LONG RUN. PUBLIC EXPENDITURE, WHICH LEADS TO DOMESTIC DEMAND EXPANSION, WILL ADVERSELY AFFECT HONG KONG'S BALANCE OF PAYMENTS DUE TO THE INCREASED DEMAND FOR IMPORTS. MACRO-ECONOMIC RESTRAINTS DO NOT ALLOW THE ECONOMY UNLIMITED EXPANSION IN THE PUBLIC SECTOR IF HONG KONG WANTS TO MAINTAIN ITS EXPORT COMPETITIVENESS AND CURRENCY STABILITY.

(B) THE ABOLISHMENT OF THE WITHHOLDING TAX ON INTEREST ON FOREIGN CURRENCY DEPOSITS WILL ENHANCE HONG KONG'S POSITION AS AN INTERNATIONAL FINANCIAL CENTER. HONG KONG CAN EXPECT TO GAIN FUNDING BUSINESS, PARTICULARLY FROM SINGAPORE. ONE KNOWLEDGEABLE SOURCE ESTIMATED THAT IN SIX MONTHS SINGAPORE MAY LOOSE 20 PERCENT OF ITS PRESENT FUNDING TO HONG KONG. HE CHARACTERIZED THE

MEMORANDUM  
OF CALL

4

TO:

YOU WERE CALLED BY—

YOU WERE VISITED BY

OF (Organization)

PLEASE CALL → PHONE NO. CODE/EXT.  FTS

WILL CALL AGAIN  IS WAITING TO SEE YOU

RETURNED YOUR CALL  WISHES AN APPOINTMENT

MESSAGE

Dave,  
Frances  
Burke left this  
for you.

RECEIVED BY

jm

DATE

TIME

11:00

63-109

STANDARD FORM 63 (Rev. 8-76)

Prescribed by GSA  
FPMR (41 CFR) 101-11.6

\*GPO : 1981 O - 361-529 (149)



# China Hints of Hong Kong Takeover

## But Wants U.K. Colony To Remain Free Port

By FRANK CHING

Staff Reporter of THE WALL STREET JOURNAL

HONG KONG — China has decided against extending Britain's lease over most of Hong Kong when it expires in 1997 and will "recover" its sovereignty over the entire colony, according to usually well-informed sources here and in Peking.

It is unclear exactly how China hopes to exercise its sovereignty. Chinese leaders have told British officials and visiting Hong Kong businessmen that they intend to preserve the territory's prosperity, keeping it as a free port and a financial and commercial center.

China's paramount leader, Vice Chairman Deng Xiaoping, has repeatedly said that Hong Kong investors should "set their hearts at ease." But investors and other residents of Hong Kong are waiting for a more explicit explanation from the Chinese government as to just how Hong Kong's prosperity can be maintained and what role the British will play.

Time is rapidly running out. Already, the Hong Kong government has had to pledge to guarantee all of the colony's Home Ownership Scheme mortgages extending beyond the expiration of the lease on July 1, 1997—less than 15 years from now. So far, private banks have gone along with this, because they perceive the risk as minimal. But the risk is likely to increase as time goes on without a resolution of the problem of Hong Kong's future.

"The name of the game in Hong Kong is confidence," said Jimmy McGregor, director of the Hong Kong General Chamber of Commerce. "Businessmen worry all the time and big investment decisions need security. If confidence is to be maintained, there is a degree of urgency (to resolution of the Hong Kong question)."

According to Mr. McGregor, the sense of urgency is dictated by the fact that "we've moved into the 15-year critical period" and "financial instruments are normally delineated in 15-year terms."

Mr. McGregor and others agree that "the confidence level is very high right now." But, he warned, this can change rapidly and can become "like a run on the bank."

The Chinese privately have told important British visitors that China's sover-



Prime Minister Margaret Thatcher is scheduled to visit Peking and Hong Kong in September and, at that time, the matter of Hong Kong's future will be an important item on the agenda. No one expects an agreement to be reached at that time, but if the two sides can agree, say, to set up a joint committee to study the matter, it would be widely regarded as a positive step.

In London, Foreign Office spokesmen say they don't consider reports of China's intentions to regain sovereignty as anything particularly new. Newspapers there, however, ran reports suggesting China was making an early attempt to stake out its Hong Kong negotiating position prior to Mrs. Thatcher's visit.

The Foreign Office declined to comment on the future of the lease, but British officials said the Chinese have assured them that whatever is decided, the nature of Hong Kong will be preserved.

One source close to the Chinese government explained that China's leaders cannot

agree to an extension of the lease because "they don't want to go down in history as traitors, just like Ching Dynasty officials." Another said, "Even African and Asian countries will look down on us if we do that."

On the other hand, the Chinese government doesn't really want to incorporate Hong Kong into the People's Republic because it derives tremendous benefits from the British-administered territory. Hong Kong accounts for between 30% and 40% of China's annual foreign exchange earnings. China also benefits substantially from Hong Kong's financial services, its international contacts and its skills in designing, styling, promoting and marketing of Chinese goods.

Every so often, the suggestion is made that Hong Kong can be run as a special economic zone of China, with British "experts" hired to help run it. But this appears to be totally unacceptable to London.

"Modifications may be possible but there cannot be a mercenary British administration," one British official source said. "Britain won't be politically humiliated," asserted Mr. McGregor, a former Hong Kong government official. "They would sooner pull out."

"The problem, therefore, is to devise a formula that will save the political face of both China and Britain. Richard Lee, a prominent businessman with close ties to the mainland, has suggested that Hong Kong could become an "independent special zone" under the Chinese flag and that the Hong Kong government could be replaced by a "governing committee," with a rotating chairman. He suggests that a Chinese can serve as chairman for, say, three years and be succeeded by a British chairman for the next three years.

Actually, a draft of the new Chinese constitution, which is expected to be adopted later this year, provides for the setting up of "special administrative regions," which can have their own socioeconomic and legal systems. The provision was meant to apply to Taiwan but there is

## Doubt on Colony's Future Delays Airport Decision

Special to THE WALL STREET JOURNAL

HONG KONG—Government officials are delaying a decision whether to build a new airport, currently estimated to cost \$6.8 billion, even though the British colony's current facility is badly congested.

Officials said they were being cautious because of the great cost. But some bankers and businessmen believe the government also wants to delay the decision until Hong Kong's future status with China is more clear. Britain's lease on much of the colony's territory expires in less than 15 years.

Some financial observers believe the government, as well as commercial banks, would be reluctant to invest so much money in a project that wouldn't begin to pay for itself before the status of Hong Kong changes.

some speculation that the provision may apply to Hong Kong as well.

Though there are likely to be changes in the way Hong Kong is run after 1997, a British source said, they cannot be so drastic as to undercut Hong Kong's usefulness to China. A key question is the currency that will circulate in Hong Kong after 1997.

"A hard currency is necessary for Hong Kong and China," he said. "It is important that it not be perceived as another form of renminbi (the Chinese currency), because then it will no longer be hard."

Maintaining the economic status quo is the wish not only of China but also of the vast majority of Hong Kong residents. "It is not that Hong Kong people support colonialism or like the British, they don't," said Mr. McGregor of the Hong Kong Chamber of Commerce. "But they are pragmatists, so they prefer the continuation of the status quo, economically speaking."

"It is a nettle that has to be grasped," said Mr. McGregor, "and actually it's not a very prickly one. Deng Xiaoping has shown himself capable of tackling a lot of prickly issues. He is a statesman rather than a politician."



is that Hong Kong Island, also called Victoria, and part of the Kowloon Peninsula on the Chinese mainland were ceded in perpetuity to Britain by China. The New Territories, which make up the bulk of Hong Kong, will revert to China under the terms of a 99-year lease signed in 1898.

There have been recent indications from United Kingdom sources that London may be willing to acknowledge Chinese sovereignty over all of Hong Kong. In fact, one possibility is for Britain to openly repudiate its 19th century treaties with China by accepting the Chinese position that those were unequal treaties foisted upon a weakened Ching Dynasty by Imperial Britain.

In return, according to this scenario, the Chinese will agree that British administration of the territory can continue. Such an agreement would remove the 1997 deadline, which is hanging over Hong Kong like the sword of Damocles.

Britain's recent war with Argentina over the Falklands inevitably raises speculation that London might also resort to arms to retain control of Hong Kong. But the two situations aren't parallel. For one thing, the population of the Falklands is entirely of British stock, while Hong Kong is 99% Chinese.

Another factor is that 90% of the colony's territory is scheduled to revert to China under the terms of Britain's lease, which would leave a rump colony with no airport, no agricultural land and virtually no industries. Moreover, Hong Kong is dependent on China for food and water.

A formula under which Britain conceded China's sovereignty over Hong Kong and Kowloon could enable the British to continue their administration of the whole territory.

Undoubtedly, both the British and the Chinese have considered various formulas that might be used to enable China to claim that it has regained sovereignty over Hong Kong and for the British to continue running it. But neither country appears to have formulated its bottom-line position.



from his instructions by successfully demanding both a treaty and an island, thus securing Hong Kong. In addition, five Chinese ports including Guangzhou were opened for trade. The commercial treaty was embodied in the supplementary Treaty of Humen (Bogue), October, 1843, by which the Chinese were allowed free access to Hong Kong Island for trading purposes.

**Lease of New Territories**

The Second Anglo-Chinese War (1856–8) arose out of disputes over the interpretation of the earlier treaties and over the boarding of a British lorch, the *Arrow*, by Chinese in search of suspected pirates. The Treaty of Tianjin (Tientsin), 1858, which ended the war, gave the British the privilege of diplomatic representation in China. The first British envoy, Sir Frederick Bruce, who had been the first Colonial Secretary in Hong Kong, was fired on at Dagu (Taku) Bar on his way to Peking to present his credentials, and hostilities were renewed from 1859–60.

The troops serving on this second expedition camped on Kowloon Peninsula, as the territory's earliest photographs show. Finding it healthy, they wished to retain it as a military cantonment, with the result that Sir Harry Parkes, Consul at Guangzhou, secured from the Viceroy the perpetual lease of the peninsula as far as Boundary Street, including Stonecutters Island. The Convention of Peking, 1860, which ended the hostilities, provided for its outright cession.

Other European countries and Japan subsequently demanded concessions from China, particularly after Germany, France and Russia rescued China from the worst consequences of its defeat by Japan in 1895. In the ensuing tension, Britain felt that efficient defence of Hong Kong harbour demanded control of the land around it.

By the Convention of Peking on June 9, 1898, the New Territories – comprising the area north of Kowloon up to the Shum Chun River, and 235 islands – was leased for 99 years. The move was directed against France and Russia, not against China whose warships were allowed to use the wharf at Kowloon City. There, Chinese authority was permitted to continue 'except insofar as may be inconsistent with the military requirements for the defence of Hong Kong'. However, an Order in Council of December 27, 1898, revoked this clause and the British unilaterally took over Kowloon City. Some desultory opposition when the British took over the New Territories in March, 1899, soon disappeared. The area was declared part of the colony but was administered separately from the urban area.

**Initial Growth**

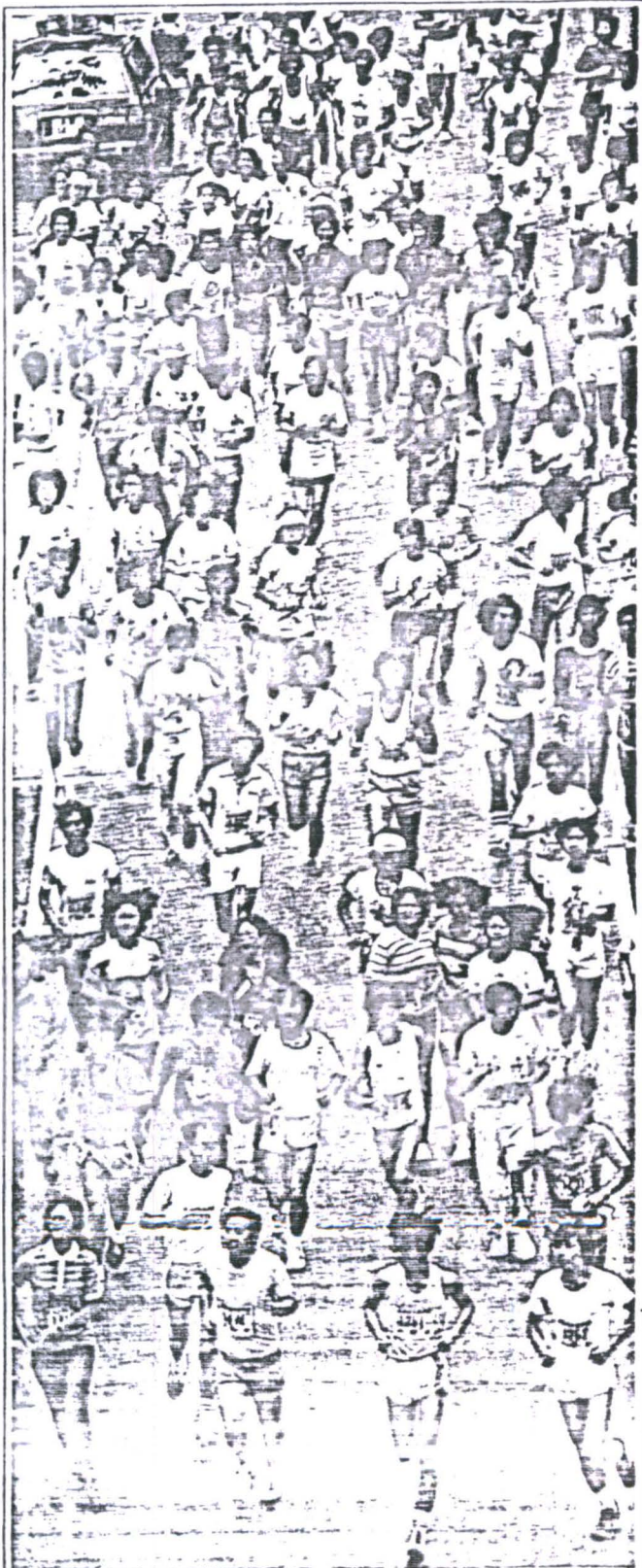
The new colony did not go well as first. It attracted unruly elements, while fever and typhoons threatened life and property. Crime was rife. The Chinese influx was unexpected because it was not anticipated they would choose to live under a foreign flag. The population rose from 32 983 (31 463 Chinese) in 1851, to 878 947 (859 425 Chinese) in 1931.

The Chinese asked only to be left alone and thrived under a liberal British colonial rule. Hong Kong became a centre of Chinese emigration and trade with Chinese communities abroad. Ocean-going shipping using the port increased from 2 889 ships in 1860, to 23 881 in 1939. The dominance of the China trade forced Hong Kong to conform to Chinese usage and to adopt the silver dollar as the currency unit in 1862. In 1935, when China went off silver, Hong Kong had to follow suit with an equivalent 'managed' dollar.

Hong Kong's administration followed the normal Crown colony pattern, with a governor nominated by Whitehall and nominated Executive and Legislative Councils with official majorities. The first unofficial members of the Legislative Council were nominated



## HONGKONG '82



Young Hongkong Belongers: few favour Peking control in 1997.

## OVERVIEW

## A game of loss of face versus loss of nerve

*"For the time being, we continue to prosper.  
"Don't lose your nerve."*

— Sir Murray MacLehose

After 10 years, out-going Governor Sir Murray MacLehose leaves behind a British Dependent Territory more prosperous than ever but which is still caught in a political web spun by the quirks of history. It will be a difficult task for his successor, Sir Edward Youde, to ensure that Hongkong maintains growth with stability: the economy is subject to vagaries in its overseas markets while the local people badly need a common cause in order to live with the political uncertainty which hangs over them. The New Territories (NT) lease has only 15 years to run. But Youde will be assisted by two tried and tested advocates of "positive non-interventionism" in economic management, Chief Secretary Sir Philip Haddon-Cave and Financial Secretary John Bremridge.

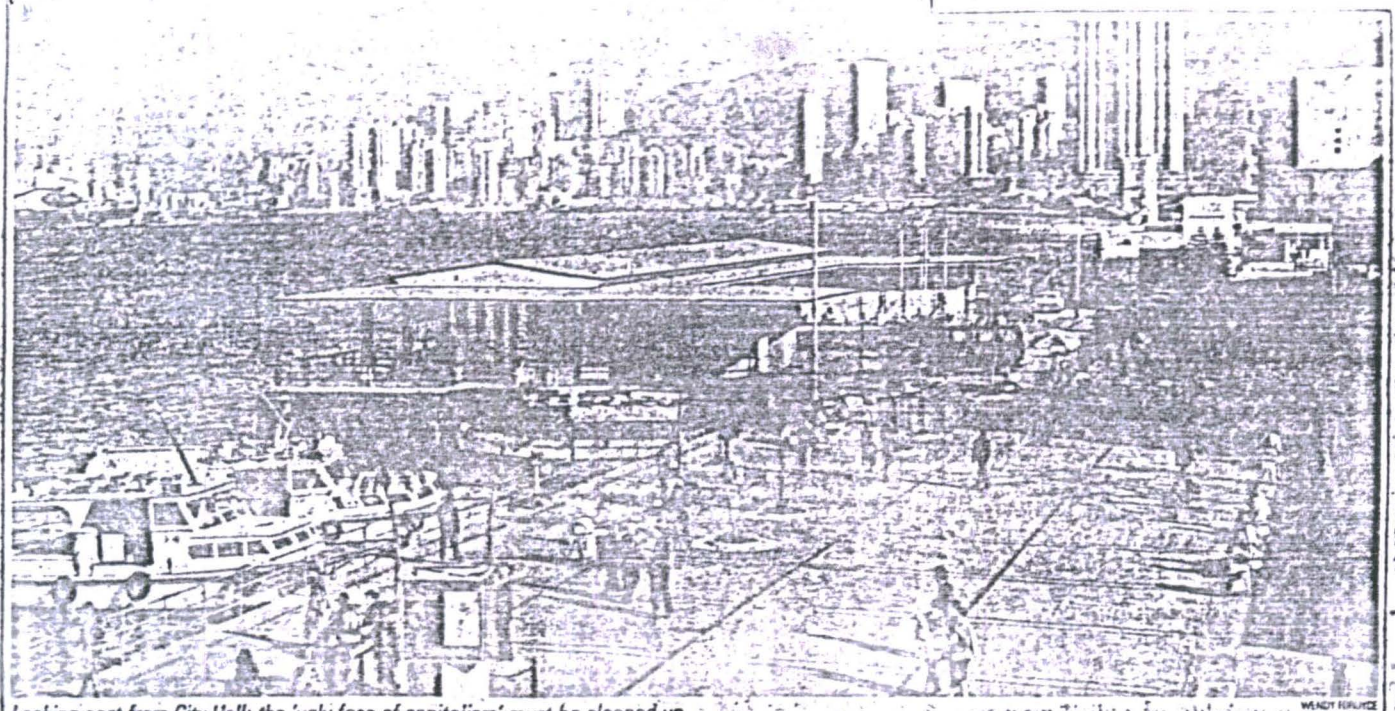
For his part, the new governor (an old China hand) will be much called upon, at least by the local population, to untangle the problem of the NT lease. After 140 years of British rule, Hongkong now has at least 5.2 million people who know they are much better off, politically and economically, than their brothers across the border. One can hardly blame them if they do not want to be governed by Peking as that prospect, from the present perspective, would mean a change of life-style.

The scheduled visit of British Prime Minister Margaret Thatcher to Peking in September will be the next focal point of 1997 concern. It is very unlikely that the lease question will be resolved during her talks with Chinese leaders, according to British Deputy Foreign Secretary Humphrey Atkins who suggested, after a visit to Peking in January, that "another step forward" will be taken.

What would constitute such a step? A definite date for starting negotiations, which would allow all three parties concerned to prepare their briefs? What would happen in the meantime to the Hongkong economy, its stockmarket, property developers and banks which have financed their projects? Would heavy, long-term infrastructure commitments by the Hongkong Government — a new airport, massive new container port, further extension of the Mass Transit Railway to Shatin new town — help calm nerves? After all, the British Government has already guaranteed a £918 million (US\$1,732 million) loan to finance the construction of a coal-fired power plant at Castle Peak in the NT, the final repayment of which is due in 2002.

Would a British-Hongkong-China plan to build a nuclear power plant in Guangdong province be sufficient proof of goodwill and honourable intentions towards Hongkong? Will a proposal by the China-led Mighty City consortium to develop a private new town in the NT for 500,000 people — when approved by the Hongkong Government — be far-reaching enough to calm investors' fears? Why indeed would Chinese corporations want to participate in such a long-term project when there are just as many such developments being planned in the special





Looking east from City Hall: the 'ugly face of capitalism' must be cleaned up.

economic zone (SEZ) of Shenzhen?

There are no simple answers but plenty of straws to chew on. There have been rumours from Peking of a special 30-year friendship treaty between Britain and China which could provide another platform for discussions on the lease. A Reuter newsagency report from Peking in January quoted an unnamed senior official as saying that China "would make proposals on the future of Hongkong "in good time before 1997." When asked if there might be a friendship treaty, the official replied: "We are discussing the question." He reiterated that an "appropriate" solution would be found through "consultation."

A 30-year timeframe for Hongkong to evolve into a special Chinese economic and administrative zone is not too far-fetched and need not necessarily be seen as buying time for capitalists here. The British would not be selling out Hongkong if they were committed to helping the local people readjust to a new identity. The Chinese would not lose face by conceding that it would take that long for compatriots here to learn to live alongside a socialist economy, thereby giving faint-hearted capitalists time to establish roots elsewhere. In the meantime too, stayers could help clean up the present "ugly face of capitalism" — a phrase used interestingly by MacLehose (not Chinese officials) in reference to "excessive speculation in real estate and some socially disruptive transactions."

Indeed, if China were to extend to Hongkong the same terms Marshall Ye Jianying (chairman of the Standing Committee of the National People's Congress) offered to Taiwan last September — that it be an autonomous special administrative zone retaining control of its armed forces and socio-economic system, including its way of life and economic/cultural relations with foreign countries — the mutuality of interests would be preserved. Ye also

said: "There will be no encroachment on the proprietary rights and lawful right of inheritance over private property, houses, land and enterprises or on foreign investments."

Hongkong, in order to continue to prosper and not lose its nerve, needs to have its role in China's modernisation defined, beyond what enterprising compatriots are already acting out in Shenzhen. Once such an appropriate solution is written out through consultation, Hongkong's survival, politically and economically, will be in the hands of its own people.

**M**acLehose's advice to businessmen — or was it a plea? — not to lose their nerve stemmed from an awareness that a solution to the 1997 question which would best serve the interests of Hongkong, China and Britain, can only be reached if the tripartite relationship is not shaken by either a collapse of the economy or social unrest in the dependent territory. Any sharp fall could precipitate British or Chinese action which would erode the mutuality of interests which now exists — and continues to

Mary Lee wrote this FOCUS except for *The Quality of Life* contributed by Harry Rolnick.

ON OTHER PAGES	
The Financiers	48
The Workers	51
The Administrators	54
New Territories —	
New Towns	56
Development	68
The Budget	70
The Belongers	73
The Quality of Life	76

grow — on an even three-legged stool.

Hongkong's continued prosperity last year resulted in an HK\$18.5 billion (US\$3.19 billion) visible trade gap in China's favour — up from just under HK\$8 billion in 1977. MacLehose told a gathering of local accountants last November:

"Enterprises with China must be based on mutual trust rather than enforceable contract which makes for difficulties for conscientious lawyers and accountants. The more Hongkong businessmen can invest in China and share their experience of manufacturing, managing and marketing with Chinese authorities, the healthier will be Hongkong's role in China's modernisation programme with all the significance this has for Hongkong's future."

The mutual trust has been established by way of US\$400 million worth of investment in China's SEZs, most of it concentrated in Shenzhen; 720 agreements on projects have been signed, according to the *Peking Review*, of which 548 are in operation. The majority of these are for three- to five-year terms, with an option for renewal, but at least one — to develop a 30 sq. km. new town in Shenzhen — is for 30 years.

The cordiality of day-to-day relations between Hongkong Chinese (compatriot) investors and representatives of state-owned corporations in Shenzhen is very evident. The Chinese representatives take great pride in displaying foreign equipment transplanted by Hongkong investors in the mushrooming factories in Shenzhen, while the compatriots no longer hesitate to voice dissatisfaction over bureaucratic processes or poor production. Hongkong technicians posted in Shenzhen to train and oversee production may miss the mod-cons but are cheerful about helping out. "At least, I'm saving money while I'm here," a young Hongkong supervisor in a milk factory said.

A year ago, the Federation of Hong-



King Industries (FHKI) established its Hongkong-China Industrial Cooperation Committee to coordinate mutual interests. Industrialist Allen Lee, FHKI vice-chairman, told the REVIEW: "We're organising trips to China to see what they want and what we can do to help." FHKI will be leading six such trips for specific sectors of Hongkong's manufacturing industry in 1982. FHKI is complemented in its endeavours by the Hongkong General Chamber of Commerce China Committee which focuses on trade.

Asked if the NT lease is mentioned in Hongkong industrialists' discussions with the Chinese, Lee said: "Nobody knows what's going to happen, but I think the Chinese have finally understood our problem. They used to say '1997 is still a long time away,' but now they understand that Hongkong investors are looking for long-term prospects, not a quick buck."

But despite the fact that compatriot investors and their Chinese friends are now carrying on as if the only problems involve management of production and availability of skilled workers, 1997 is of concern — and not only to investors. "Poll on 1997 issue shows majority snub Chinese rule" stated a headline in a college newspaper last December. The methodology of the poll, conducted by students of the Baptist College communications department, may be open to question but, on an issue as basic as this, it would be petty to debate whether the sample was sufficiently representative of the 5.2 million population.

Only 2% of the 1,441 respondents said it was best for Hongkong to be returned to China when the lease runs out; 66% desired no change in Hongkong's status after 1997; 11% said the territory should be jointly managed by China and Britain; another 11% suggested that Hongkong becomes a SEZ; 55% said they would leave Hongkong if China took the territory back; 33% said they would stay behind and the rest were undecided. (No one suggested the Hongkong Chinese should or could run the enclave themselves; perhaps nobody dared).

The students' poll will very likely be followed by others sponsored by private groups of concerned citizens. But even within these groups, there is often bitter debate about the wisdom of publicising the obvious and causing Chinese leaders a public loss of face.

What if the Chinese leaders got annoyed and decided that the compatriots should be educated in socialist principles? Then again, there are groups like the newly formed Hongkong Prospects Institute headed by Prof. Lao Yung-wai, a reader in philosophy at the Chinese University in Shatin, which sincerely believe "there is a need to launch a non-violent social movement to tell Peking that Hongkong people want to maintain the status quo in order to continue to be useful to China." It will be Youde's task, then, to guide Hongkong's aspirations towards 1997 in a diplomatic way, without causing loss of face for China or loss of nerve among compatriots.



Watch this (dotted) space: but why didn't Exxon and China Light and Power issue long-term bonds?

THE FINANCIERS

Controls to protect whose interests?

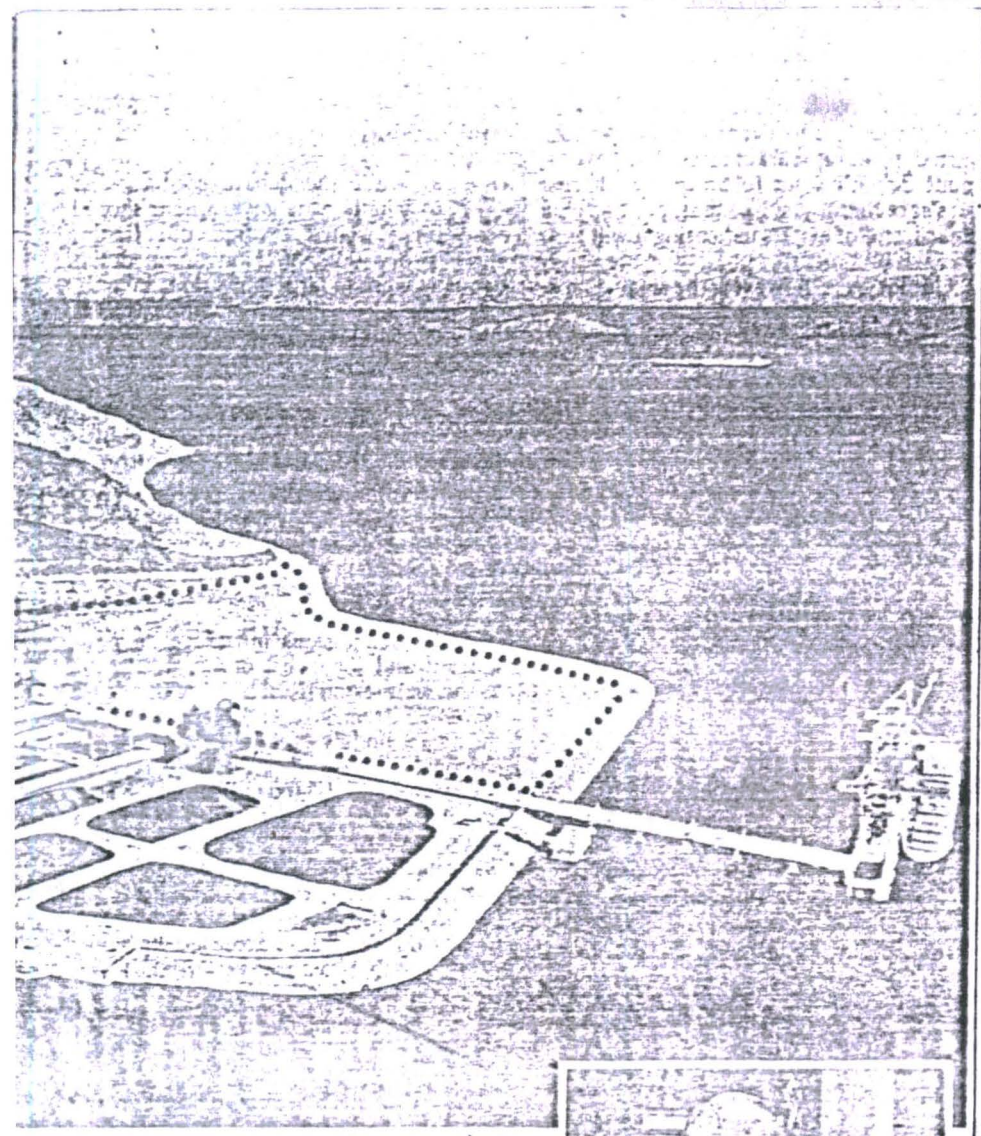
American banker Kent de M. Price is a firm advocate of free competition in Hongkong. His cause is not as tautologous as it sounds: he feels the "structurally weak" domestic banking system could do without the interest rate restriction on deposits of less than HK\$500,000 (US\$85,034) and that the big local banks should encourage the development of a commercial market.

The recent re-structuring of the banking system — freeing deposits with banks of more than HK\$500,000 from the interest rate agreement, the creation of a new tier of deposit-taking companies (DTCs) — is a "retrograde step," said Price, Citibank's senior vice-president. "The interest rate agreement does not pay small depositors market value for their money. The local banks with a large distributive network want to protect their low-cost deposits and are also not encouraging the development of a commercial market because that

would vitiate the interest rate agreement. "It may be in the interest of some to see that system perpetuated," said, "but I don't think it's in the interest of the Hongkong economy." The interest rate agreement also encouraged the decline of the Hongkong dollar against a whole basket of currencies (the local currency's effective exchange index fell to its lowest point [81.5] last September, but subsequently recovered as the interest rate differential moved in favour of the local dollar to end the year at 85.9).

Depositors and large local banks, Price claimed, were converting Hongkong dollars into sterling in order to enjoy the interest rate differential between the two currencies. At the same time, the Hongkong dollar was declining so they were making capital gains on the exchange rate movement also. Such currency movements are bound to happen when banks' deposit rates were lower than the inflation





Citibank's Price: Many are 'intimidated.'

(There was an outflow of HK\$8 billion as against an inflow of HK\$3 billion in foreign-currency transactions last year.)

The interest rate agreement has encouraged a mis-allocation of resources. "People have been putting money into the stock and property markets because, as long as deposit rates were no more or lower than the inflation rate, it made sense to borrow all you could and put it elsewhere," Price said.

Moreover, the depositor has subsidised the borrower, particularly local industrialists, for so long that when interest rates were forced to go up — the Hongkong Bank's best lending rate reached an all time high of 20% last October — manufacturers were demanding cheaper loans. "Certain banks have encouraged industrialists to use the overdraft facility to borrow money," Price said. "That retards rather than enhances domestic capital formation. Industrialists should be borrowing on term-loan basis where they are forced to pay back a certain amount of money every year because that turns debt into equity. But when our industrial customers ask why they should take a term-loan from us at long-term pricing when they can get it on an overdraft basis from our competitors, we can only say it's

not prudent to finance their capital formation on over-drafts. There has to be an adequate infrastructural base and capital market to support economic growth. If Hongkong achieves a nominal 20% annual growth in the 1980s, the economy will double every five years."

Price cites the \$118 million (US\$1,700 million) syndicated loan repayable over 20 years for a coal-fired power plant at Castle Peak signed last October as an example of the weakness of the domestic financial system. Citibank was involved in all five parts of the loan, including two Hongkong dollar packages totalling HK\$1.25 billion.

"Banks shouldn't make 20-year loans because they haven't the deposit structure that makes such long-term loans prudent," Price said. Why didn't Exxon and China Light and Power (the partners in the Castle Peak project) issue long-term bonds? They didn't because there's no market here in long-term bonds. Castle Peak could only turn to a handful of players to raise the money it needed."

Merchant banker Geoffrey Barnett of Baring Brothers Asia Ltd added: "The local capital market may not be very sophisticated, but it's very large, very active and very free. It would obviously assist our business development efforts if companies took a sophisticated view of their asset and liability structure because if they did, then they could call upon a whole range of financial instruments which are meat and drink to us as a merchant bank."

The techniques used to raise money for huge projects are going to be inadequate, Price argues, as more and more long-term projects are undertaken in Hongkong such as future extensions to the Mass Transit Railway and an airport to replace Kaitak. Even so, things are changing — slowly — because of competition.

Said Price: "On the Castle Peak deal, one of the large banks chose initially not to be in it, but there were others who stepped up. Three or four years ago that would have been impossible. Only one bank would have set the pricing and the customer could either take it or leave it."

The competition has come from the entry of 47 full banks and 117 DTCs into Hongkong since 1978. Total loans and advances provided in Hongkong by the 121 banks and 350 financial institutions stood at HK\$175.7 billion at the end of 1981 — an increase of 216% since 1978. Another financial instrument, Certificates of Deposits (CDs), has also proliferated. Hongkong dollar CDs outstanding in December 1981 amounted to HK\$3.5 billion, up from HK\$1.9 billion a year ago.

The government's decision to replace the Exchange Banks Association with the statutory Hongkong Association of Banks (HKAB) in early 1981, followed by the creation of new licensed DTCs (merchant banks) was a way of controlling future rapid expansion of credit creation. The intense competition for Hongkong dollar deposits had resulted in banks forming DTC subsidiaries to get around the interest rate agreement. The three-tier structure of banks, licensed and registered DTCs will put the wholesale money market business back in the hands of the banks (whose activities are subject to closer supervision by the authorities). In order to allow DTCs which had been dealing in the wholesale money market to continue in business, the licensed DTC category had to be created. This group will, together with banks, be the only institutions which can take deposits of HK\$500,000 or more for three months or less at market rates. The third category, registered DTCs, will be restricted to HK\$50-500,000 deposits for three months or



more. The first eight DTC licenses to be granted under the new system in February went to Baring Brothers Asia, Canadian Eastern Finance, Jardine Fleming, Kleinwort Benson, Nomura International, Orion Royal Pierson Holding and West LB Asia. The abolition of the interest rate agreement on deposits with banks exceeding HK\$500,000 does not affect the competition between licensed DTCs and banks. Said Barnett, "We used to compete with the DTC subsidiaries of banks. Less than 1% of our deposits are in amounts which are less than HK\$500,000. We continue to compete, but with the banks themselves."

"I never thought we would have the monopoly on deposits for very long because

there is a very powerful lobby (HKAB) which would ensure we didn't. The interest rate agreement has been eroded for the past three years anyway by the licensed banks' freedom to establish DTCs to take such deposits at market rates. The government doesn't want to scrap the interest rate agreement just like that, but there's a clear trend of events indicating it will fade away to naught."

Until it does, however, the small depositor will be disadvantaged as interest on savings deposits remain at 10%. "But in all markets around the world," Barnett said, "the big depositor enjoys more benefits than the small one."

It is not known what proportion of local currency deposits with banks and DTCs are in tranches of HK\$500,000 or more. "Supposing it was 75%," Barnett said, "the interest rate agreement is a thing of

the past anyway. From our perspective, I'm sure it's over 50%." However, official statistics show that at the end of 1981, savings deposits amounted to 48% of total bank deposits.

But while the debate continues as to whether the government should have waited to find out firstly, what proportion of Hongkong dollar deposits were in large sums and, in addition, their distribution among banks and licensed DTCs, Financial Secretary John Bremridge in his first budget has introduced further liberalisation to encourage the growth of Hongkong as an international financial centre. As of February 25, tax on interest on foreign-currency deposits with all banks, licensed and registered DTCs was scrapped, while tax on Hongkong dollar deposits was reduced from 15% to 10% to discourage widespread switching from the latter to the former.

These concessions introduce "a new, untried and somewhat untidy dimension to the well-tested fiscal balance of our tax system," Bremridge said, adding that "if they were unduly exploited, we shall have to consider whether the loss to revenue (estimated at HK\$400 million in 1982-83) is still justified, or whether we have begun to pay too high a price for the economic advantages gained."

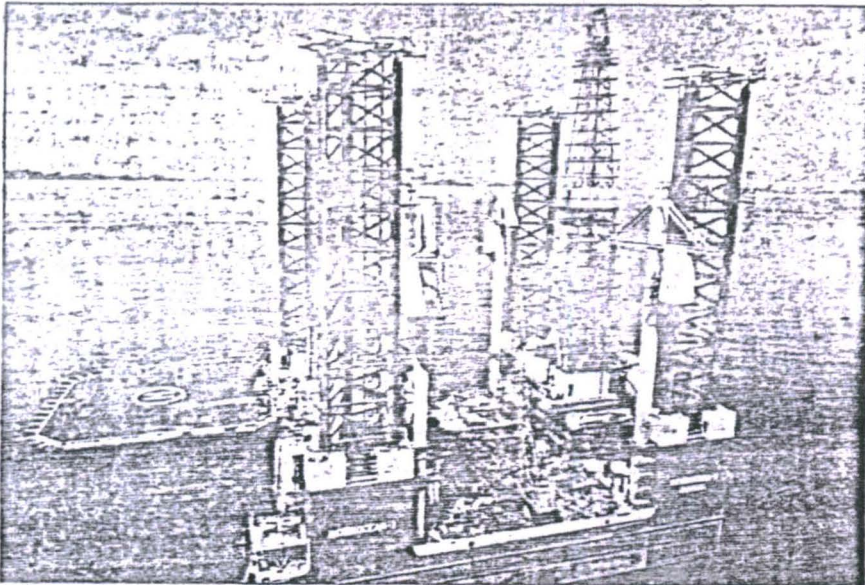
Pressure from HKAB on government to abolish the interest tax was strong and Bremridge eventually accepted the banks' argument that "we could afford the loss in [revenue] yields and that the enhancement of Hongkong's position as an international financial centre could well outweigh the fiscal losses [which would] in part be offset by increased profits tax yields from financial institutions."

It remains to be seen if the abolition of tax on foreign-currency deposits will enable Hongkong to catch up with Singapore as the regional funding centre for offshore loans, mostly in US dollars. As of December 1981, banks and DTCs' foreign-currency claims on banks outside Hongkong amounted to the equivalent of HK\$174.5 billion, while those on non-bank customers were at the equivalent of HK\$7.4 billion.

In the meantime, the wrangling continues within HKAB for a freer competitive banking system. "There are few members of the association who are able to speak up," said Price. "Many are intimidated — they're worried that if they take maverick positions there might be pressure brought on them, which they are not willing to face. At the meetings I've been to, I've talked to people privately and they tell me they agree with everything we're saying but they don't feel they're in a position to say it themselves."

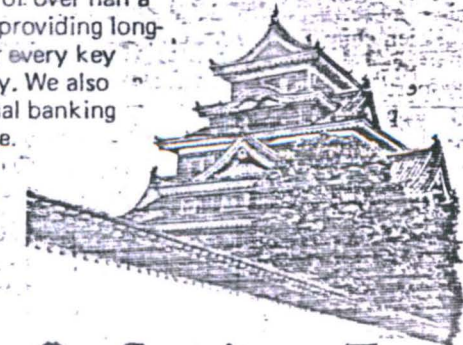
"We've suggested the setting up of sub-committees to discuss the clearing and foreign-exchange settlement system and to review the interest rate agreement before they are set in stone," Price said. "The HKAB [chaired by the Hongkong and Shanghai Bank] said there was no legal structure for the sub-committee system to be set up so, until that is modified, there can't be sub-committees. Meanwhile, changes have been implemented, so we're stuck with them for a while."

## What Sumitomo Trust does for Japanese industry, it can do for industry all over the world.



Offshore oil drilling rig on the Inland Sea of Japan. Sumitomo Trust, which provides specialized financial services for every segment of the economy, played a major role in financing this facility.

Sumitomo Trust, with assets of \$38.4 billion, is one of Japan's leading banks. For over half a century we have specialized in providing long and medium-term financing for every key sector of the domestic economy. We also offer a full range of international banking services to customers worldwide. For your financial needs in the Orient, America or Europe, contact the bank that's at home both in Japan and the world. Contact Sumitomo Trust.



**Sumitomo Trust**  
& Banking Co., Ltd.

Singapore Branch: Unit 1-16, 1st Floor, U.I.C. Building, 5 Shenton Way, Singapore 0106 Phone: 2249065 Telex: 20717 International  
Dept. and International Finance Dept.: 3-1, Yaezu E-chome, Chuo-ku, Tokyo, Japan Phone: 03 278-3131 Telex: J28631 02226049  
Services Network: London Branch, New York Branch, Los Angeles Agency, and representative offices in Frankfurt, Bahrain and  
they Head Office: Osaka, Japan. Subsidiary: The Sumitomo Trust Finance (H.K.) Limited





Wigs... and watches: the VTC council will be established in April.

## THE WORKERS

# Wigs, then watches — now we're off to a VTC

**T**he government's economic philosophy of positive non-interventionism is under heavy attack from local industrialists burdened with rising production costs and heavy interest rates. Their cries for help — for cheaper land and financing — have not moved the government. "The trick," said former financial and now Chief Secretary Sir Philip Had-don-Cave, "is to avoid being unnerved by short-term difficulties for which market forces would provide the best solution in the course of time."

But as far as industrialists are concerned — particularly textile manufacturers — difficulties caused by high land prices and interest rates are far from short-term. Moreover, these cost problems are occurring at a time when there is an urgent need to move into higher value products in order to stay ahead of competition from Taiwan, South Korea and Singapore.

The Federation of Hongkong Industries (FHKI) paints a bleak picture: "The painful economic burden of exorbitant land prices has posed a serious deterrent to industrial investment and expansion, leading to the outflow of capital to neighbour-

ing countries with much cheaper land and more attractive lease terms... Fluctuating [high] bank lending rates have made it very difficult, if not impossible, for manufacturers to make long-term investment and re-investment plans [for] new industries using high level technology and sophistication."

What is more, argued FHKI chairman Tang Hsien-chin, the entrepreneurial spirit had been sapped by the more profitable property and stockmarkets in 1979-mid-81 — speculative activities that have fallen off since last October. The lack of confidence in the prospects and profitability of the manufacturing sector, Tang said, could be fatal.

Manufacturers' claims of no support from the government seems justified in one particular area: a much-needed morale booster which the government could — but has yet to — provide is an industrial exhibition facility. The government's efforts in this direction consist of a half-hearted search for — of all things — suitable land.

However, Financial Secretary John Bremridge has conceded that industry

needed incentives towards investing in new equipment, even as he re-affirmed the government's stand that "businesses either sink or swim as they adapt to changing competitive conditions." In his 1982-83 Budget Speech in February, Bremridge offered higher initial depreciation rates of 55% on plant and machinery — up from 35%, but less than the 100% write-off industrialists had sought. He also allowed a higher industrial buildings allowance for those who moved into new factory premises.

**I**ndustrialists found these new concessions "satisfying" but will no doubt continue to press for positive interventionism by government to help them stave off the pressures of costs and foreign competition while they move upstream. They feel their problems merit special consideration because manufacturing is Hongkong's economic base, employing 40% of the workforce or more than 900,000 people. Their regular warnings of the undesirable social effects of unemployment have been underscored by youth riots in Britain last year.

Industrialists see the government's reliance on the ability of manufacturers and the workforce to adapt to changing demands as outdated. Whereas wig-makers were able to switch to watch-production six years ago, there is little else they can turn to now when the demand for a particular line of watches falls off. "They can't even switch to making hand-held electronic games because there are too many peo-



ple producing these items already," said Allen Lee, FHKI's vice-chairman.

Trade figures support claims that the toy industry, the world's biggest, is becoming overcrowded. Hongkong exported HK\$7.3 billion (US\$1.24 billion) worth of toys last year — a 46% increase, overtaking watches which used to be the second-largest category of exports in dollar

terms. Only locally-made electronic toys manufactured locally, only about 50 are selling well, according to an industry spokesman. It is no longer easy for a small entrepreneur with little capital to set up a toy factory because of the high cost of labour, land and plastics.

Industrialists' hesitancy or inability to move up-market in a big way is evident from the 50% vacancy rate in the Taipo industrial estate, where land — at HK\$925 a sq. m. — is the cheapest in Hongkong.

# Labour gets organised

Manufacturers and labour groups are united in their attack on the government's economic philosophy of positive non-interventionism. Both parties feel industry needs government's help (cheaper land, loans and utility rates) to stay in business and avoid large-scale redundancies which will have a knock-on effect on social stability. But there their united line ends.

When a factory actually shuts, workers seldom accept their fate quietly because the employer is usually selling up to enter the property market. Moreover, new jobs — if available — are often located far away in the new towns. But a lot of the militancy of laid-off workers these days is the result of stepped-up efforts of labour pressure groups like the Christian Industrial Committee (CIC) to educate workers on their rights and to fight for protective legislation.

While manufacturers do not dispute the need to improve industrial safety and working conditions, they are worried that labour's expectations of other benefits (such as higher compensation rates, insurance and retirement schemes) are rising faster than employers can afford. "Obviously our benefits are not as great as those in developed countries," said industrialist and legislative councillor Allen Lee. "But look at the countries we're competing with — Singapore, Taiwan and South Korea. We're in line with their legislation: and our production costs are higher."

The Federation of Hongkong Industries' executive director, Cecil Chan, has warned against the "stifling of the economic vigour of industry" by labour and environmental legislation raising the levels of workers' compensation and widening its applicability and introducing stringent pollution controls. "A sensible balance must be struck between what is desirable and what is economically attainable," he said. "The flexibility which industry used to enjoy — an important element — has been gradually eroded by overburdensome legislation."

Lee says that the labour-management relationship in Hongkong has changed dramatically in the past six years and not for the better either. "The CIC is there to prod government and industry — that's good. But I wish they'd try and understand our difficulties just as we are trying to understand labour's problems. A lot of factories are not making profits

this year, so employers cannot afford more worker benefits."

Lee's factory, Ampex Ferrotec, came out relatively unscathed last August when 100 workers had to be laid off "to reduce costs and strengthen competitiveness in the market." Part of the cost-effective exercise included a move to a new factory in Canton. There, production costs were one-third those in Hongkong: laid-off workers were offered compensation in line with labour legislation but they demanded some 250% more in severance and outstanding holiday pay and bonuses. Eventually, Ampex and the workers reached a compromise on ex-gratia payments.

The dispute, however, was not without its problems. A statement by Ampex's industrial relations manager, Raymond Yau, described it thus: "While negotiations were under way, a third party [CIC] purporting to represent labour interests sought to get itself involved. Furthermore, there were attempts to influence Ampex's 1,200 other workers to go on [sympathy] strike. If a strike had materialised, a sincere employer who was acting thoroughly within the law would have suffered tremendous losses. Fortunately, [CIC] was prevented from influencing the workers who were, by and large, very loyal to the company because of extremely good relations."

Whether Ampex would have agreed to provide ex-gratia payments had CIC not been involved is debatable. Lee however, would only say that had militancy prevailed, he would not have considered negotiations for ex-gratia payments.

"I was getting sick from manufacturers too," Lee said. "They were afraid I would set an unhealthy precedent by bowing to the workers' demands. I said we had to strike a balance between what the workers were demanding and what we could afford. Whether we like it or not, labour is getting more organised. What management and labour must both understand is that Hongkong cannot afford social unrest because it would destroy both parties."

Despite employers' worries about labour's growing militancy however, workers generally appear to have accepted the economic realities of poor business prospects: though 48 work stoppages were recorded last year, mostly in manufacturing — compared with 37 in 1980 — only 15,319 working days were lost as against 21,069 the previous year.

The establishment of a new industrial estate to attract industry using higher technology but five years after the Industrial Estates Corporation was set up, only 35 enterprises have signed contracts, of which only 17 are in operation.

The need to restructure local industry is now urgent if massive unemployment is to be avoided: industrialists, faced with shrinking order books, are diversifying downmarket by moving production of cheaper quality goods into China. One electronics firm, Ampex Ferrotec, retrenched 100 workers last August when one technical process line became non-viable and a poor business outlook meant they could not be moved to another line. Ampex however was able to maintain its overall level of business because its factory in Canton (with 100 workers) was already in production. The China-made cassette-radios may be of a lower quality, but the market for such goods is there and the cost of making them in China is a third of what it would cost in Hongkong. Lee, Ampex's managing director, is sufficiently impressed with the productivity of the Canton factory to be thinking of expanding the facility there.

Difficulties facing local manufacturers may seem over-stated because total exports last year registered an 18% increase in dollar terms (to HK\$80.4 billion). But the danger signals are there — real growth of 7.6% has been outstripped by the 24% real growth in re-exports, the largest single source being China. The value of re-exports is already half that of domestic exports but, more significantly, their increase in dollar terms is very close to that of exports — HK\$11.7 billion and HK\$12.3 billion respectively. However the entrepot trade, despite its vast increase in volume, is not a major source of employment. As of September 1981, 120,000 were employed in some 19,000 import-export firms while about 5,000 people were employed in storage and warehousing.

Industrialists and the government know there is only one way to achieve growth with stability: the manufacturing sector must re-equip with high technology manned by skilled workers whose training has fallen squarely on the government's shoulders.

A long-awaited vocational training council (VTC) will be established in April to coordinate technical education and industrial training. Vocational training at present is provided in five technical institutes, 22 secondary technical schools and 12 prevocational schools and various other training facilities including those set up specially by the construction and clothing industries. All these will be brought under the aegis of VTC, which will also run two new training centres whose specially designed courses will meet the needs of the electronics, plastics, textiles and hotel industry.

Basic training will also be provided in key engineering skills like tool-making and there will also be post-graduate engineering courses. A total of 7,300 people will be trained in VTC's two centres each year, at a cost of HK\$55 million annually. The centres, which have yet to be built, are expected to cost HK\$110 million. Ex-



expansion of technical tertiary education is being planned. (The textile industry's appearance on the priority list for training skills suggests that the sector is far from dying, despite the gloom that surrounds it.)

In the meantime, the wrangling continues between industrialists and government officials over the system of administration in vocational and industrial training. Industrialists — though relieved that after five years of pleading and debate, the VTC is finally being established — nevertheless hold deep reservations about the setting up of a new government department of technical and industrial training, headed by a civil servant, to run the centres.

Legislative councillor and textile manufacturer Stephen Cheong stated pointedly at the passage of the VTC bill in February: "The director must have considerable professional stature and be capable of providing the professional leadership required; he needs to be a specialist and must have extensive experience in both technical education and industrial training. It would be a pity if the director were to be a general administrator."

Cheong's statement echoed the concern of several legislative councillors who felt another government department was not needed. Replied Education Secretary Kenneth Topley: "The government has seen the [director's] role, particularly in the initial phase, as an administrative one." The fact that industrialists will far outnumber civil servants on VTC, which will advise the new department, may not be a sufficient safeguard against bureaucracy, said Lee. "We won't have that much time to keep telling the director what to do. Nevertheless, a government-run training programme is better than none," he conceded.

While VTC sets about establishing itself, other government-directed efforts are being made to promote industrial investment and to assess the needs for back-up facilities for the new industrial revolution which is expected to be led by the electronics sector. An electrical and electronics standards measurement and calibration laboratory is being built and is expected to be operational in 1983, while a micro-processor development laboratory is being planned. A review of the state of the electronics industry and an assessment of its future direction is also scheduled.

Industrial investment offices are being established in Tokyo, Europe and the United States, while a "one-stop facility" has been set up in the department of industry to provide a comprehensive and rapid service to potential investors, local and foreign.

In the meantime, the Hongkong Trade Development Council (TDC) continues its vigorous export drive abroad. "More than twice a week, every week in the year, somebody is selling made-in-Hongkong goods somewhere in the world," a legislative councillor said. Whether TDC's efforts will help the manufacturing sector through another year of economic uncertainty however, is an open question. □

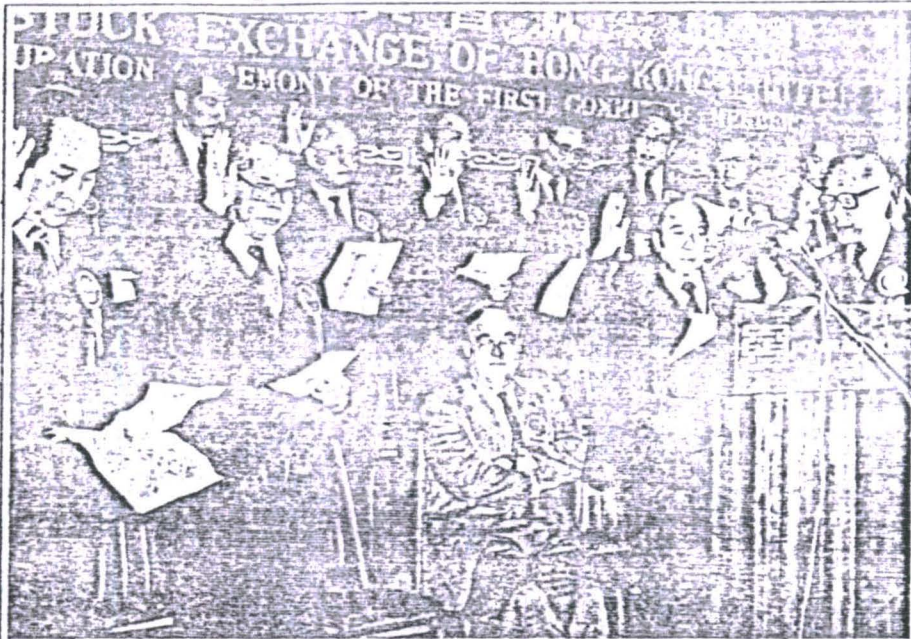
## Non-interventionist of the positive kind

Hongkong has prospered, a government argument goes, because there is unequal distribution of income. "It is our [economic] policy," Financial Secretary John Bremridge said last November, "to allow financial incentives to promote general growth from the top. This means acceptance of the role of wealth — in which personal freedom is all-important — and conscious recognition of a degree of inequality in income distribution. Consciousness of inequalities will accompany economic prosperity."

Not many people here would dispute this general principle, but it is the rate at which the wealth is filtering from top

to resist such demands. Where it has given in — as in limiting bus fare increases and imposing rent controls on all but domestic housing at the top end of the market — concessions have only fuelled the general level of discontent over the disparity in income (and profit) distribution and brought down more opprobrium on the government's "positive non-interventionist" economic philosophy.

In recognition of the size of the revenue surpluses, Bremridge, in an unexpected show of generosity, raised salary tax thresholds and personal tax allowances this year by 25%, and dependent parent first and second child allowances by 10-14%.



Bremridge and happy stockmarketees: but 60% of the labour force earns less than HK\$2,000 a month.

to bottom which is the subject of much heated debate. The 1981 census revealed that nearly 60% of the labour force earn less than HK\$2,000 (US\$340.14) a month.

Under these circumstances, prosperity has brought a lot of political problems for the government. Its cumulative budget surpluses now stand at HK\$23 billion. The size of its wealth in turn has given rise to a chorus of demands for intervention on many economic and social fronts. Manufacturers and industrial workers want cheap land and loans, and lower utility rates. Industrial workers also want social security schemes. Squatters demand better facilities or rehousing. Everybody wants more roads and tunnel crossings and bus-users in particular want fares to remain cheap. Social pressure groups want more public housing to be built faster. Operators of small businesses want commercial rent controls.

The list of wants gets longer every year. The government, however, tries valiantly

This means that only single people earning HK\$28,000 and married couples earning HK\$56,000 or more a year — less than 10% of the working population — need pay income tax. Of these 205,000 people, only 13,000 are taxed at the maximum rate of 15%. This high income group, Bremridge said, contributes well over half of the total yield from salaries tax which is estimated at HK\$2.2 billion in 1982-83. "There can be few other places in the world where the majority of the economically active are excluded from charge to tax," Bremridge remarked.

There seems little else the government can do to diffuse strident public demands to spend its huge budget surpluses. "Rising aspirations has become a sexy political phrase," one former government official said. "It has been bandied around so much that everyone expects the government to meet these aspirations — whatever they may be — from its billions." But starting from April 1, the gov-



ment has spent revenue from land sales into a capital works reserve fund. By so doing, said Brembridge in a pre-budget speech before the Legislative Council, he hoped to put to rest the "ridiculous suspicion that revenue surpluses held in our reserves are not really intended for Hongkong ends."

The sub-division, he explained, was necessary to tell the true story ("that we are returning to investment in Hongkong the surpluses that arise from land sales which are often lumpy and unpredictable"). It would also lead to a more business-like procedure in planning expenditure on the public works programme and costly land acquisition. At the end of March, he said, the outstanding financial commitment to public works which would take more than four years to complete was a staggering HK\$23 billion.

But a more business-like accounting of capital expenditure does not help resolve the government's difficulties in its political relationship with the people. These difficulties have multiplied in the past four years with the mushrooming of pressure groups, particularly those lobbying for better housing for squatters and better and safer working conditions for the blue-collar class.

The government's Standing Committee on Pressure Groups (SCOPG), which monitors the tide of organised discontent in Hongkong, is irritated with what it regards as the "constant exaggeration of the government's inadequacies" in the social services field. While part of SCOPG's role is to ensure that pressure groups "do not fall under the control of extreme political factions (and become) subversive," its main preoccupation is the amount of mud social activists have flung at the government. "Some of the mud always sticks," observes SCOPG.

"The government," the committee's report said in 1979, "is now better able to face criticism than in the past [due to] its various long-term plans [for] housing, new towns, social welfare, education and rehabilitation and improvements in labour legislation." Nevertheless, the committee warned against government complacency and recommended that programmes and policies be "constantly updated and refined to meet the rising expectations of the community." Only by being responsive would the government be in a good position "to resist unreasonable pressure," the report said.

An attempt to respond positively to the needs of the community has been made with the recent introduction of partly-elected district boards. Top officials hope that a vigorous relationship between boards and local government officials will leave less room for pressure groups to generate widespread protests against policy decisions. More importantly, the boards, officials hope, will be able to alert government departments to areas of neglect or where policy is unduly inflexible.

But will this district board system work when a huge advisory network has failed to keep the government in touch with the people in the past? Will officials appoint-

ed to deal with them? Will they be able to make the system seem more responsive? The simple answer from top government officials is that "it must work." It will be left to new Chief Secretary Sir Philip Haddon-Cave to give substance to his vision that the Hongkong bureaucracy, "despite the absence of an orthodox parliamentary system, is directly and continuously — as opposed to discontinuously — accountable to the community."

Haddon-Cave has not lost sight of the positive, non-interventionist, economic philosophy which he promulgated for a decade as financial secretary. He sees his new administrative role thus: "A reliance on the efficiency of market forces will

not suffice to ensure that an economy continually adjusts to changes in its environment and achieves growth with stability. What is required . . . is that the general stance of public policy must be sympathetic to individual aspirations . . . There are some aspirations which cannot be fulfilled by individual effort or private enterprise and public policies have to reflect a sense of social responsibility towards those who, for one reason or another, are unable to take advantage of the proffered opportunities."

However, he did not mean in any way to raise hopes of those fighting for "economic justice" or a "fairer distribution of wealth" generally. "Clearly, great care

## NEW TERRITORIES: NEW TOWNS

# We must eliminate the pong in Yuen Long

When Britain forced China to lease 970 sq. kms of the mainland adjoining Kowloon in 1898, it said the land was needed "for the proper defence and protection of the colony." The enemy changed with the times — from rebellious villagers aided by imperial Chinese troops at the turn of the century to a flood of illegal immigrants seeking a better life in capitalist Hongkong in the late 1970s. Defence installations — 84 years later — consist merely of an imposing flood-lit fence along the border in the New Territories (NT) — an area closed to all but permit holders — and a small garrison base.

For decades the land between the Kowloon hills and the border was left alone by the British administration, too much alone, according to critics. The government should have made a positive effort to preserve Chinese temples, ancestral halls and improve living conditions in some 640 villages. Some effort has been made in recent years to preserve the architectural heritage in the NT — a few walled villages are 500 years old — but much is beyond restoration as a result of community and government neglect.

The so-called "land between," however, was not destined to remain quiet and rural. Urban Hongkong and Kowloon were bursting at the seams as a result of the post-war population boom. In October 1972, the new governor Sir Murray MacLehose launched a 10-year housing programme with the aim of providing decent homes for everyone. The NT boom then began: huge new towns were to be created

in Shatin, Tuen Mun and Tsuen Wan and smaller ones in Yuen Long, Taipo and Fanling-Sheung Shui.

Ten years later, the housing problem looms even larger despite the fact that 220,000 public housing units have been built. The squatter population has grown from 300,000, when MacLehose first arrived, to 750,000 today. There are even more people whose living conditions, as MacLehose said in 1972, "offend alike our humanity, our civic pride and good political sense."

But a clear start has been made: new towns are growing, and plans to build another at Junk Bay were announced last September. The NT's physical development is impressive. Shatin and Tuen Mun, which together will house 1.4 million people by the end of the century, are rising on reclaimed land, as will Junk Bay. By the time the lease expires, nearly 3 million people will be living in the NT — 2.5 million more than before new town development began. Moreover, there are plans to pour even more billions of dollars into the NT. It is this massive development which makes any thought of simply returning the land between to China in 1997 a ridiculous idea. The NT is firmly locked in with Hongkong and Kowloon which were ceded in perpetuity.

While politicians rack their brains over how to untie the lease, the REVIEW produces this progress report on three NT towns: one brand new (Shatin), one not so new (Tsuen Wan) and one which is eagerly awaiting renewal (Yuen Long).

field (which Shatin means) is being transformed into a new town for 800,000 by 1996. This is 300,000 more than was originally planned — housing density has been increased by 20% and an annexe to the new town is to be built for 200,000 at Ma On Shan.

Shatin is not a pretty sight at the moment. But when the piling and building eventually stops, the planners promise a better living and working environment — with better management and facilities —

SHATIN's claim to fame today is a HK\$550 million (US\$93.06 million) race course, superlative in size and equipment. Two centuries ago, it was its rice rather than racing which was famous — the crop was sent 3,000 kms north to Peking for the Emperor's table. Little of Chinese history — or rice fields — is left in that legendary fertile valley, apart from a 19th century walled village (Tsang Tai Uk) and a temple.

Instead, what was once a peaceful sandy



must be taken to ensure that social policies — and redistributive fiscal policies — do not lead to an undermining of the free enterprise system," he added. "We believe the work ethic must be associated with a political acceptance of the concept of fair reward for effort by the individual and risk-taking by the company."

But while the new financial and chief secretaries may see eye-to-eye on how to administer Hongkong, they have much work to do to repair the public's impression that it is a weak administration. As a retired top civil servant described it: "The bureaucrats who had to pilot through the vast expansion in government in the past decade weren't always intellects of the

first order, so they were generally un-able of themselves. Their immediate reaction to demands for change [such as to the Public Order Ordinance in 1979 and, more recently, for closer monitoring of the privately-operated bus companies and utilities] is: 'This is the way we've been doing things for years — the system's served us well.'"

"Government says no, then knuckles under [holds inquiries, or commissions expert studies as in the case of the safety of gas water-heaters]. Very often, decisions are made without sufficient thought. Then, having made it, on later reflection, they recognise that it was not the best decision. But instead of being big about it, and

HONGKONG

admitting they've made a mistake, they try and brazen it out, only to concede in the face of stronger protests. That's the worst way to handle social demands. If the other side has a case, grant it. If it really doesn't feel they have a case, the government has got to stand its ground.

"I guess the government is too self-conscious of the fact that it cannot afford the arrogance of the ballot-box. It is probably more responsive to public opinion and pressures than most governments — but the quality of its responses leaves something to be desired."

than anywhere else in Hongkong. In housing terms, however, this still means masses of high-rise apartments — only 10% of the 800,000 people will live in low-rise private housing. Half the population will be in public housing, 30% in private estates and the remaining 10% in government-built home-ownership scheme flats.

Shatin's proximity to Kowloon makes it a popular choice among the 160,000 families on the public housing queue. Only those who have waited seven years are likely to get in (for public housing in remote Tuen Mun, the wait is only three years). Even squatters clamour for temporary housing in Shatin.

There is an enthusiasm about Shatin which District Officer Patrick Hase reflects. The development concept is to offer the widest possible range in private

housing which would mean the super-buzzurious on one end and something not too dissimilar to a tenement building on the other "so that we'll have a mixed community in Shatin with better facilities, of course," he said.

As of March 1982, there will be 180,000 people in Shatin. The mix is not very varied at the moment. There is a predominance of public housing tenants, plus 12,000 squatters in temporary housing, but private development is trying vigorously to catch up. Shatin's largest private housing estate, the 9,000-unit City One, is two-thirds complete; the town centre, which will offer masses of office space, is rising.

It is industrial development which is lagging behind. While official statistics show

that only 1,700 sq. ms of factory space were unoccupied at the end of 1980, another 133,400 sq. ms were built last year and a lot of it is standing empty.

"It is an economic, rather than a planning problem," Hase said. "Manufacturers are afraid to expand and workers don't want to change jobs because of the general economic uncertainty." As a result, 70-80% of factory workers are coming from other areas, while 70-80% of the Shatin population commutes to work in the urban areas.

Shatin is designed to be a self-contained town. It is far from being that. Hase explained: "I'm very conscious that the town is seriously out of balance [in social and employment facilities] and won't be in balance until 1984-85. There's no way we can keep to a statistical balance. We can only

## File our name-LTCB-for your further business references!

From its base in Hong Kong, LTCB Asia Limited handles all manner of international banking activities, in response to Asia's continuing growth and importance.

As a member of the LTCB banking group, we provide a complete range of financial services.

- \* Loans and international loan syndication.
- \* Underwriting and selling of securities.
- \* Acceptance of term deposits, and money market operation.
- \* Advisory services on all aspects of corporate finance.



**LTCB Asia Limited**

A wholly owned subsidiary of  
The Long-Term Credit Bank of Japan, Limited

2602-3 Admiralty Centre, Tower I, 18 Harcourt Road, Hong Kong. Telephone No. 5-285670. Telex: LTCB ASIA. Fax: HX73321



try and ensure that all the job opportunities people need will eventually be available in the new town. It'll be more difficult in the early years than in the later years. But Shatin will be a service centre when the hotels and offices are ready. We've got a lot of big companies interested there. We're in a tight valley and there'll be smog problems if we have heavy industries. We've insisted on light industry which means skilled workers. We won't need coolie labour."

Hongkong's hotel industry, having run out of space in Tsimshatsui, is moving into Shatin. A local company, Regal Hotels (Holdings) Ltd, is building a first-class 500-room hotel at a total cost of HK\$690 million; two more hotels sites will be of-

ferred in April, and possibly two more at a later stage. "The Hongkong Tourist Association thinks several more hotels will be needed in the next few years, and I'm happy to have them here. Hotels will upgrade the district generally," Hase said.

Another up-market facility which Shatin needs is a private hospital. "The Chinese University's 1,300-bed Prince of Wales teaching hospital will be our general hospital," Hase said, "but we need a private one for those who want more luxurious facilities." A 19,300-sq.-m. site has been offered for tender.

Shatin's newness makes community building a real challenge. (Tuen Mun has similar problems.) "We have huge housing estates where no one family knows another," said Hase. "We've got nothing to build on." But even as Shatin grapples with its growing pains, a new bag of social problems has landed: 12,000 squatters for whom no provision for transport or social services were made. Many of them are recent immigrants from China and they aggravate problems of assimilation.

Putting them in one area doesn't reduce the problem with youth — and most of them are in their early 20s. Even without them, we haven't got enough recreational facilities for our own population at the moment. One football field for 170,000 people is highly inadequate, don't you agree?" asked Hase.

The challenges will have to be met if Shatin is not to degenerate into a satellite slum. The task will have to be borne by the partly-elected district boards, particularly as new expansion plans are putting the administrative machinery into over-drive. Shatin's potential of becoming Hongkong's super-city is great. The district board has a clear opportunity to keep track of development and to ensure that social services and transport facilities will be adequate. Unlike the rest of Hongkong, the new town's residents have a

The 1974 plan provided a 1-43 version which would have done little to prevent Tsuen Wan from turning into an industrial ghetto, with sub-standard public housing predominating. Even so, "planners have been severely limited in their endeavours to combine existing and proposed developments into a viable community," stated a government handbook on the new town.

All that can be done now is to ensure that schools, communal facilities and open spaces are built into new public housing estates of a higher standard. Older housing estates built in the 1960s are being redeveloped, but very slowly. Clearing alleys choked with hawkers, squatters and illegal factories has been a full-time job for the past seven years. Tsuen Wan's experience in clearances, however, has been comparatively successful and is being copied territory-wide in the current Keep Hongkong Clean campaign.

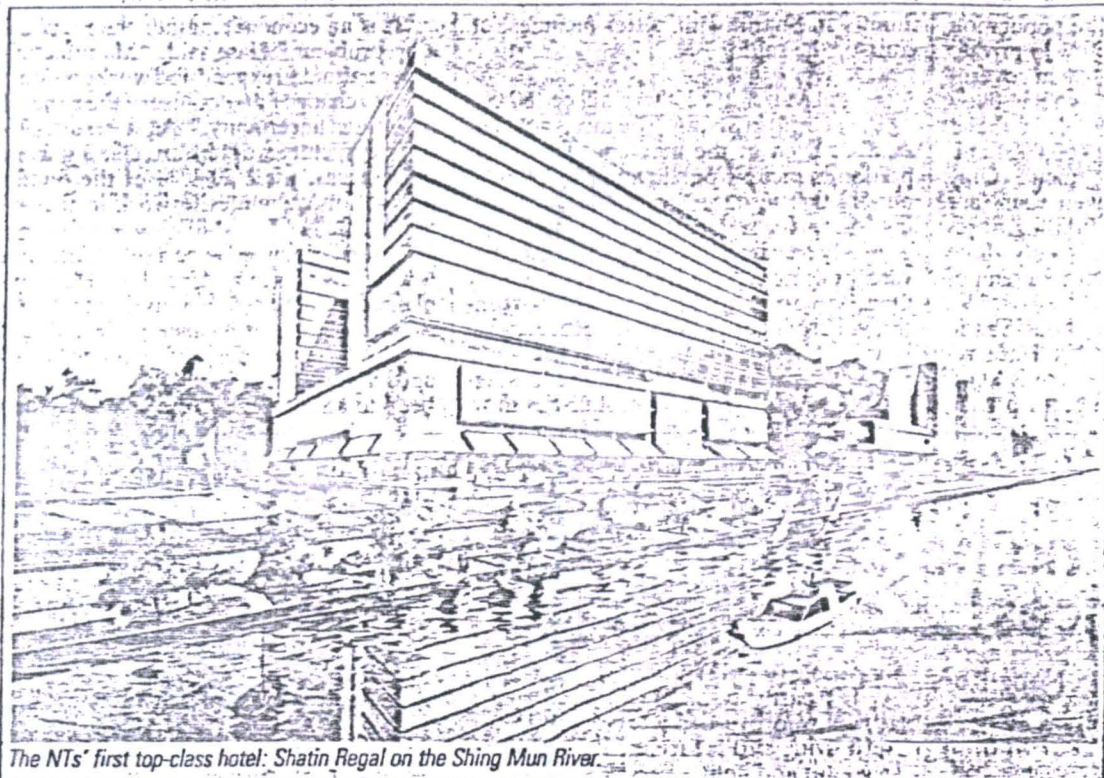
It was the 1978 decision to extend the Mass Transit Railway (MTR) to Tsuen Wan which gave the town "the biggest boon possible" (as James Hayes, town manager until last February, described it). "We now have a welcome variation of middle-class housing estates. The MTR has affected property-developers' thinking on Tsuen Wan," he added, pointing proudly to the private housing estate for 25,000 people which is rising near the MTR's depot in the northern district.

Private apartment blocks for about 60,000 people have been or are being built as a result of the MTR's arrival in the town. There will be five stations in the district when the extension opens in

May. Another part of the welcome variation of the town's working-class sprawl is a luxurious private club on a hill. Entrance fees for the Hilltop Country Club cost HK\$20-150,000 while subscriptions range from HK\$150-500 a month.

The MTR's presence has also sparked off intense redevelopment of industrial property in Tsuen Wan, so much so that the town now has an oversupply of industrial factory space. The slowdown of manufacturing growth has further aggravated the vacancy rate. In December 1980, more than 242,300 sq. ms of factory space were unoccupied; another 1 million sq. ms were forecast to be completed in 1981-82. Consequently, a large area presently occupied by flatted factories was re-zoned last year to allow for more commercial/residential redevelopment.

Caltex, which has had oil storage facilities in the district since the 1930s, is also planning to redevelop its depot into a commercial/residential area. Little effort is being made by the government to tailor redevelopment according to road capacity



The NTs' first top-class hotel: Shatin Regal on the Shing Mun River.

chance to shape their local environment. Whether they will do it is another matter.

**T**SUEN WAN is a new town with a long history of attracting migrant farmers from South China. But it was only in 1948-50 that the town took on its industrial character. Shanghaiese industrialists, particularly textile manufacturers fleeing from the communist revolution in China, descended on Tsuen Wan where cheap land and plentiful water enabled them to establish new factories. The flourishing of such enterprise however has made Tsuen Wan a town planner's nightmare.

Unlike Tuen Mun and Shatin, the plan for Tsuen Wan new town — for a population of 950,000 by the 1990s — cannot be implemented on a clean slate. In 1974, when the plan was launched, Tsuen Wan already had a population of 350,000 — most of them living in sub-standard public housing estates or squatters' villages clinging to the hillsides. Those in private tenement buildings were living cheek by jowl with noisy factory buildings.



but Hayes said that, this problem apart, stringent conditions will be put in the modified leases to ensure that adequate communal services will be provided in the new buildings.

The fact that such intensive redevelopment of Tsuen Wan makes life very difficult for the people who have to live next to it has not escaped the government. A project site monitoring unit has been set up by the government to preempt any unmanageable discontent arising from residents — but the unit's work will be confined to government projects only (34 at the last count in December).

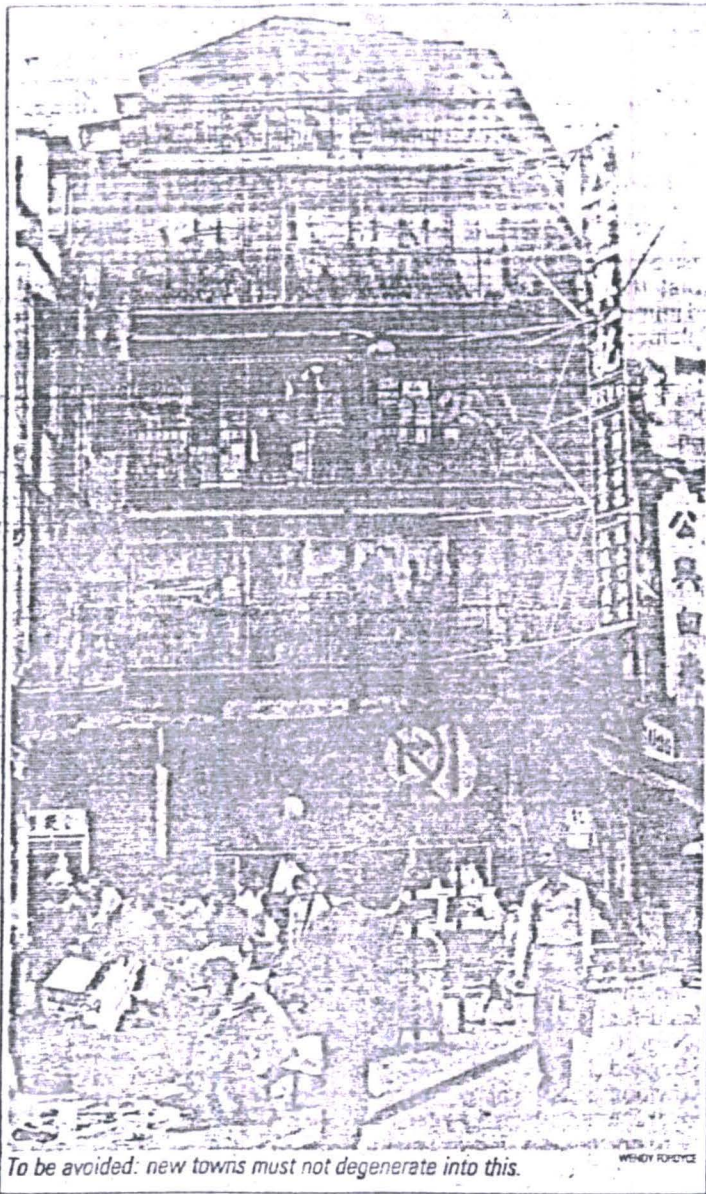
In the meantime, the need to expand the container port complex at Kwai Chung (part of Tsuen Wan new town) has resulted in a feasibility study of further extensive reclamations (of up to 130 hectares) down to Stonecutters Island. The possibility of new land becoming available has raised hopes of siting a polytechnic in Tsuen Wan. The present polytechnic at Hunghom in Kowloon has no more room for expansion but more tertiary technical education places are needed in Hongkong.

Further changes to the town plan may also be necessary if the government decides to build a new airport at Cheklapkok north of Lantau Island. This possibility is sending shudders through local officials who already have their hands full trying to disentangle the clogged roads to Tsuen Wan, particularly access routes to the container terminal.

The Kwai Chung road network is already strained by the redevelopment of Tsing Yi Island (also part of Tsuen Wan new town), whose present population of 40,000 will be nearly quadrupled by 1988. At present, Tsing Yi's only link with the mainland is a two-lane bridge, built seven years ago by the island's industrialists. Plans have been made to widen the bridge to cope with additional traffic which has been generated. A new bridge will have to be built if north Lantau is to be developed but access road capacity in Tsuen Wan cannot be expanded significantly.

Despite the magnitude of the task, it is not keeping track of the physical developments which is the biggest headache for local officials. Said Hayes: "The figures [charting progress of the new town projects] look very impressive. But at neighbourhood level where individuals matter, results are disappointing and even disheartening."

Hayes should know — he spent seven years as town manager (a job he described as "virtually impossible"). He explained: "The size of our housing estates, particularly the older ones where there are almost no recreational facilities, makes it difficult



To be avoided: new towns must not degenerate into this.

for people to develop a sense of community. It's partly because the lower-income groups who live there have to work hard for a living and have little time or energy to go out and help others. But it's also because management of those estates has been inadequate for a long time. We have huge estates of 40-50,000 people which have no focal point. They're perched on top of high platforms and are cut off from the rest of the town by highways.

Some positive changes however may be feasible with the government's provision of HK\$4 million for the district board in 1982. This money will enable local communities to organise more activities and improve their neighbourhoods. By the end of the decade, Tsuen Wan will be the largest town in the whole territory. Local officials will have a hard time making sure it does not degenerate into Hongkong's largest ghetto by then. "But the task," Hayes said, "cannot be done by government alone. The people will have to help themselves."

**Y**UEN LONG stinks. It has a major pollution problem because pig and poultry farms and squatters' factories discharge waste straight into the streams which flow into a nullah that runs right through the town.

### HONGKONG

But it is not the pong which makes Yuen Long different from other new towns in the NT. It is the fact that though its flat landscape makes it ideal for rapid development, the government did not select Yuen Long as a site for a new town. The reason was obvious: much of the land in Yuen Long is in private hands. To build a new town for at least 500,000 people there would have entailed massive, complicated and costly land acquisitions. Instead, the government chose to level mountains and reclaim inlets and bays around Tuen Mun, Tsuen Wan and Shatin because those new towns would encroach on less private land. (Even so, an outstanding land debt of 36 million sq. ft has been incurred in the process.)

The government decided to leave Yuen Long development to private land owners and confined itself to building a small new town — at first for 95,000 but now for 130,000 people by 1996 — and forming 65 hectares of land for an industrial estate nearby. At least, that was the theory. "It's questionable that the government wanted private development," said Charles Yeung, a legislative councillor and an indigenous son whose native village is just outside Yuen Long town. "Lack of roads and services have stifled private development," he said.

Only Yuen Long town (population: 60,000) has proper infrastructure. Most of the 200,000 other people living in scattered villages in the district have no drains or sewerage. Moreover, large-scale private development is handicapped by fragmented land ownership. Only a few enterprising city boys with resources were able to buy up large tracts often in remote areas, build their own access roads and drainage and develop low-rise middle-class housing estates like Fairview Park.

It was hardly surprising then that "disordered growth" (as the government describes it) resulted. In 1975, a freeze was imposed on all private development except in Yuen Long town and a few villages designated as minor layout areas. The minor layouts however remained largely untouched, though enterprising property developers carried on buying up land inside them.

When the property market took off in 1979, the lack of infrastructure in Yuen Long restrained development, but the pressure was on. An even more enterprising consortium, Mighty City, which had secured ownership of 52 million sq. ft of fish ponds, wanted to build its own new town for 500,000 people at Tin Shui Wai (Place of Heavenly Waters). The consortium is led by China Resources, the state



...ing... of the People's Republic. Shortly before it received Mighty City's formal plan, the government commissioned a feasibility study of the north-western New Territories (NWNT) development potential.

**T**he study was completed last September. It recommended that the government should "proceed immediately" with the planning and implementation of basic infrastructure, provide "a sensible framework" for redevelopment to be carried out "as far as possible by the private sector" and that Yuen Long new town could be further expanded to an ultimate population of about 150,000. If the district was to grow naturally, its population would reach 470,000 by 1996 but, if a "major growth strategy" was designated, it could accommodate up to 1.2 million by then.

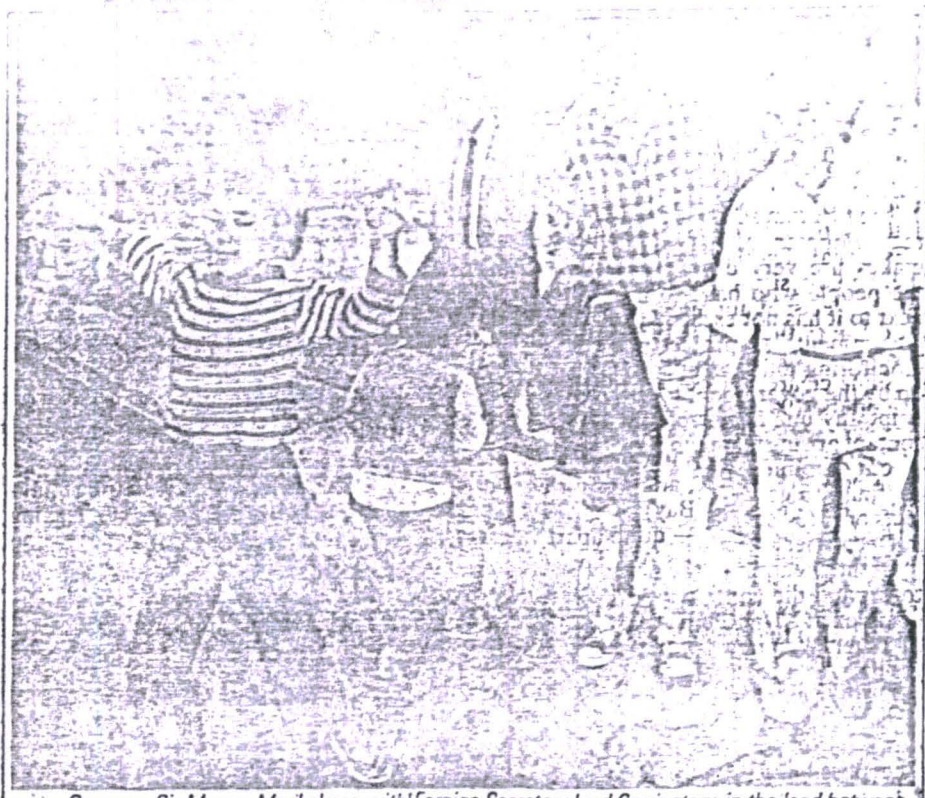
In fact, the consultants' recommendations — that the government should provide the necessary roads, drains, community facilities and the like — are not new. Similar pleas had been made by the district office and rural committees for years and ignored.

The NWNT study however, proposed that a "robust" road network be built to link Yuen Long with the rest of the territory. It also endorsed a light rail system — likely to be built by the Hongkong and Kowloon Wharf Co. — linking Yuen Long town with the Tuen Mun in the south. It further recommended that the area lining the railway be developed for residential/commercial purposes. Negotiations over the contract have been bogged down, apparently because Kowloon Wharf wants developments rights over the depot and termini and the franchise to operate buses in NWNT.

Meanwhile, Yuen Long continues to be different from the other new towns because the community, as legislative councillor Yueng put it, "has not been diluted by public housing tenants. There is a sense of belonging to the district." Indeed, some of the residents there talked of Tuen Mun as a strange new place. "I'd like to visit [Tuen Mun]," said a government van driver, "but I don't know anyone there." Occasionally, the sense of belonging extends to the hills as well — villagers guard their *fung shui* (geomantic) alignments jealously and have fought pitched battles with construction workers who needed to cut into the hills for fill.

The NWNT study has now put Yuen Long on a government short-list of development priorities. It may even be lucky enough to have Hongkong's future airport located nearby in Deep Bay. Whether the government decides on a natural or major growth strategy for Yuen Long, the area will ultimately evolve into a suburban middle-class district. Moreover, its proximity to the Shenzhen Special Economic Zone in Guangdong province has enhanced Yuen Long's potential.

But the boom has not yet begun. There is still only a government engineer, rather than a project manager, overseeing development in Yuen Long; and he is still unable to get rid of the stink in the town. □



Governor Sir Murray Maclehoose with Foreign Secretary Lord Carrington: in the land between.

## NT DEVELOPMENT

# Planning a 1997 jigsaw without a picture

**T**he government is trying to draw up a 15-year development plan in the New Territories (NT) which includes a new airport, doubling the size of the Kwai Chung container terminal complex — third largest in the world — and the provision of housing for 2.5-3 million people by 1997. The planning process is obviously hamstrung by the political uncertainty over the NT lease: all projections stop at 1996, just before it expires officially.

Whether the millions of dollars which have already been spent on feasibility studies are no more than an expensive show of confidence by the British administration (that the status quo will be maintained at least until 1997) is an open question.

In any case, the prosperous status quo could disintegrate of its own accord if plans for economic and social growth are not drawn up. Inadequate housing and social services could spark population unrest. An inadequate economic infrastructure in particular could result in a diminishing role for Hongkong in China's modernisation. To stop planning would thus place Hongkong's political and economic future in jeopardy.

As one official put it: "There will be plenty of people here by 1997, whoever may be running the place. These human needs will be there and will have to be met. The lease expiry affects the implementation of plans — there are many options, perhaps too many — but not the

planning. It would be easier to make a choice if we didn't have the shadow of 1997 over us. But we have got to get our basic planning right — a broad picture which takes us up to the end of the century."

Oddly enough, while five-year plans are adequate for other developing countries, announcements of five-, 10- or 15-year packages in Hongkong under present circumstances would cause much political speculation over 1997. It would require some bravado on the part of the next governor, Sir Edward Youde, to announce the development plans in a comprehensive 10- or 15-year package. So until the 1997 question is resolved, decisions to go ahead with long-term projects will very likely be presented in piece-meal form: a new airport, massive reclamation of the harbour, future extensions of Mass Transit Railway (MTR) lines and another new town, in the NT. But regardless of whether the development plans will be unveiled singly or comprehensively, significant parts of the jigsaw are ready or are being prepared.

The base of the 15-year plan is economic rather than social: where to put a new airport; whether the harbour can be reclaimed to enable massive expansion of the congested Kwai Chung container terminal and, to a lesser extent, where traffic links with China should be built. The official said that as the airport and container port extensions will be major generators of urban growth, their locations will have



to be decided first. Two sites are being considered for the new airport which will replace the increasingly congested facility at Kaitak: a small island on the north side of Lantau called Cheklapkok or somewhere in Deep Bay. The possibility that Portuguese-administered Macau may build its own airport does not appear to matter in these deliberations.

Essential feasibility studies for the Cheklapkok site have been completed, but the decision/announcement has been put off until the end of 1982 on what observers regard as political grounds (pending some clearer indication from the Chinese on the 1997 issue). The government, however, attributed the delay to the need to conduct other feasibility studies (one on fauna on Cheklapkok, another for an alternative site at Deep Bay).

The Deep Bay site — quite apart from the political implications of its proximity to China — merits investigation because a northwest New Territories (NWNT) study has revealed that the vast stretches of flat land around Yuen Long could be developed to house up to 1.2 million people by 1996 (a million more than is presently planned for). A decision on this major growth strategy is likely to be made this year. Official sources say that if the new airport is to be located in Deep Bay, the major growth strategy will be adopted for the NWNT.

The genesis of the NWNT study, ironically enough, was partly a proposal by a private consortium led by China Resources (the People's Republic state trading corporation in Hongkong) to develop a

new town for 700,000 people on a 52 million sq. ft site called Tin Shui Wai near Yuen Long. Mighty City, the consortium behind the Tin Shui Wai project, had submitted its plan to the government in 1980. Both Mighty City and government officials maintain that delay in the go-ahead has been caused by the need to wait for other regional studies to be completed to see where public works resources can best be allocated.

**T**he government's resources are limited," explained a senior official. "We must follow the principle that every dollar invested will have to produce multiple benefits. If we must build an airport at Cheklapkok, we will have to build a road and a bridge linking north Lantau with Tsuen Wan. Having built the bridge we might as well develop north Lantau, which can accommodate 600,000 people, so the dollars spent will be worth many things. It doesn't make economic sense to spend all those billions on the bridge to Lantau and Cheklapkok and then spend several more billions on infrastructure to support 500,000 people at Tin Shui Wai."

A harbour option is also being prepared — to examine the feasibility of reclaiming 100-130 hectares of the sea between Kwai Chung and Stonecutters Island — and, presumably, where the billions of tons of fill required will come from. If reclamation is feasible, it will eliminate the need to find another site for a new container port since the Kwai Chung facility can then be extended. The harbour-oriented strategy

HONGKONG

would thus lend weight to development of north Lantau, sources say, as growth would then extend in an arc down the western side of Kowloon.

However, an analysis of development strategies suggested by the NWNT study reveals that, even if Yuen Long (population 1.2 million) is not slotted for major growth, the Mighty City project could still go ahead albeit scaled down to accommodate 100-150,000 people instead of 500,000. Government sources have pointed out that the Mighty City proposal in itself is a good sign of China's confidence in Hongkong's continued prosperity. Ultimately, the size of the private new town has more to do with planning details than politics, the sources said.

There is, however, one other planning and political detail which lends weight to the major growth strategy for NWNT: it would lock in nicely with that development taking place in the Shenzhen special economic zone across the border. The NWNT study has shown that it would be feasible to build a major road linking the planned 240-km. highway in Guangdong province connecting Shenzhen with Canton and Macau in the north. China has already awarded the contract for the HK\$240 million Shenzhen-Canton-Macau highway to a Hongkong Chinese firm, Hopewell Holdings.

Government planners, however, have not stopped at NWNT. A study of the development potential of the northeast NT

# CREDIT LYONNAIS

## A world-wide network

providing

### full banking and financial services



**CREDIT LYONNAIS**

International Affairs

16 rue du 4 Septembre, 75002 Paris. Tel. 295.70.00. Telex: 612400

**HONG-KONG BRANCH:**

Gloucester Tower, 32nd Floor

11 Pedder Street - G.P.O. Box 9757

Tel. 526.20.51 - Telex 76390CRDHX

**SUBSIDIARY: CREDIT LYONNAIS HONG-KONG (FINANCE) LTD**

(Same address)

INTERNATIONAL CONSOLE

EUROPARTNERS - BANCO DI ROMA - BANCO HISPANO AMERICANO - COMMERZBANK - CREDIT LYONNAIS



## Make more use of the civil service?

— Bremridge

Financial Secretary John Bremridge's first budget is reminiscent of the difficulties overweight people face with regard to health: they know a balanced diet is essential, but hard to achieve. A balanced diet, according to the government's financial policy, is one where the growth rate of public sector consumption does not continuously outstrip that of the gross domestic product (GDP). Such lack of moderation would put in jeopardy the health of the economy for it would prevent the interplay of supply and demand forces — factors which keep Hongkong's economy robust and vigorous.

However, in 1981, GDP in real terms grew by 10% while the public sector expanded by nearly 22%. "This is unacceptable except as a flash in the pan," Bremridge remarked. "I accept fully the strictures I shall get," he added bravely. Throughout his budget speech, Bremridge emphasised the need for "sensitive restraint" but not "petty-minded meanness." He then set out to keep growth in government expenditure this fiscal year down to 18% in money terms, to keep in step with forecasted GDP growth. Instead, total expenditure in 1982-83 at HK\$35.5 billion (US\$6.04 billion), is 31% more than the previous fiscal year's — or so it seemed.

It is at this point that the apparently swollen budget becomes a little complicated. Much of the increase is on capital expenditure, up 54%. Recurrent expenditure is only up by 17%, well within growth guidelines. However, Bremridge has purposely over-budgeted the capital account by HK\$2.6 billion. Of the HK\$16 billion capital account, only HK\$13.4 billion is likely to be spent — a 29% increase. (On paper then, he has shown that total expenditure is estimated to increase by 18-21%, depending on adjustments.)

Why the over-provision? It comes under a new capital works reserve fund (CWRP) of HK\$11 billion. CWRP has been set up to finance the new town development programmes (including a string of expensive feasibility studies on the New Territories), road building and land acquisition. Its establishment, Bremridge argued, would show for the first time a link between the government's investment on and funding of capital works. The outstanding commitment on capital works stands at HK\$23 billion, he said. These commitments will henceforth be paid for out of CWRP, which will be allocated 15% of recurrent and 80% of land sales revenue annually.

In the past, whenever it became apparent that total expenditure on public works was going to be less than the amount provided, "steps were taken to inject new projects to make use of the funds available," stated a Finance Committee note.

This has had the "undesirable effect of increasing the overhang of carry-over projects from one year to another [with] considerable financial implications for the years following. It is now considered that this is the wrong approach." No detail was given of the new projects injected into the public works programme as a result of under-utilisation of the vote, but these projects in fiscal 1981 amounted to HK\$7 billion.

Bremridge conceded that, while he had done his best to restrain growth, "all loopholes are not closed." The one project likely to draw the government into unplanned commitments is the Mass Transit Railway (MTR). The Tsuen Wan extension is six months ahead of schedule and within its original budget of HK\$4.1 billion, but the Island Line (due for completion in 1986) is already 10% over its original budget of HK\$7 billion at 1980 prices as a result of the first two main civil works contracts. The HK\$3.5 billion earmarked to assist in financing the Island Line last year has been used up to offset the damage high interest rates were causing on the MTR corporation's financial position. "A further capital injection may have to be considered in 1982-86, depending on the levels of interest rates, other costs, profits from property developments and the loans to equity/capital ratio," stated the budget note.

Although Bremridge saw fit to warn legislative councillors against pushing for more funds for their pet programmes without suggesting where balancing cuts can be made, it is unlikely that he will suffer many strictures from them for overspending on infrastructure and other items on the capital account.

More land will be produced (644 hectares), of which 14% (91 Ha.) will be sold. Land production priority is based on the need to produce more for housing and roads. The total expenditure on transport, roads, civil engineering and land is estimated at HK\$6.4 billion — 17% of total expenditure — "compared with only HK\$1 billion or 11% as recently as 1977-78," Bremridge pointed out. Land production, he added, was now seven times more than five years ago.

The fact that 1981-82 revenue from land was HK\$1.7 billion less than envisaged — despite the provision of seven hectares more for sale than estimated — gave Bremridge a chance to demolish criticisms "that the government adopts a high land price policy." And despite the "current cyclical downturn in the property market," he added, "I have complete confidence in the long-term prospects of our real estate developers."

The public housing programme, however, has not been enlarged despite the fact that there are now 160,000 families on the waiting list. The public housing

is under way. This will provide planners with another option, called the north-south strategy, in case it is decided to replace Kaitak or if it is decided that the priority is to improve traffic links with China.

Preliminary reports already show significant growth potential in the NENT, which would straddle the Kowloon-Canton Railway (KCR) line. Electrification and double-tracking of the KCR, due to be completed in 1983, provides a ready base for the north-south strategy. The current upgrading of the Taipo-Shatin road would also enable an arterial road to be built northwards into Guangdong province.

Admittedly, the logic of this northeastern road link with China has been somewhat eroded by the announcement that the Shenzhen-Canton-Macau highway will start at the border at Lokmachau, north of Yuen Long. But as far as Hongkong is concerned, the north-south strategy's merits — the NENT study was commissioned before the south China highway was announced — stem from the HK\$3.5 billion (US\$590 million) invested in the KCR (which will have to be recouped) and the fact that the only road into China is still through Mankamto in NENT.

The easiest bit of the jigsaw, which will fit into any of the development strategies, is housing. Census projections indicate an extra 1.5 million people in Hongkong by 1997, bringing the total to just under 7 million. This means housing will have to be provided for 2.5-3 million people over the next 15 years — "a conservative estimate" an official said.

Even so, this massive housing requirement — equivalent to Singapore's population size by the year 2000 — is no longer the pivot of future development. Plans have been or are being laid to house 1.7 million more people in the seven new towns in the NT (Shatin, Tsuen Wan, Tuen Mun, Yuen Long, Taipo, Fanling-Sheung Shui and Junk Bay). Urban areas can take another 250,000.

This leaves up to a million more people for whom housing will have to be built by 1997. "We can either put them all in NWNT, or 600,000 on north Lantau and the rest in the NWNT or NENT," an official said. "It's now time to realise that our grand housing plan is running out," he said. "Over the past eight years, we have put tremendous effort into social facilities — housing, schools and welfare services. We must now re-evaluate our priorities. Increasingly, the priorities will be economic."

Having assessed the development potential of the north-west and north Lantau-harbour regions, the administration will have to know whether China will allow Hongkong to follow a natural growth pattern before it decides on the option which would produce the most effective results in economic, financial, political and environmental terms. Then again, perhaps the massive pile of development strategies being assembled will help China decide what it wants to do about Hongkong.



budget, at HK\$4.1 billion, is up by 5% on 1981-82. The government is intent only on building annually an average 31,000 units for rent, plus another 6,000 low-cost flats for sale, under the home ownership scheme (HOS) for the next few years. In recognition that these flats were in danger of being priced out of the reach of lower middle-income families, the government last year decided to exclude the land element from the sale prices of HOS flats which now cost HK\$127,500-296,400. Another concession to aspiring flat owners will be the provision of another 19,450 units over the next four years — to be sold under a private sector participation scheme (PSPS), similar to the HOS — built by private developers. "Consideration is being given," Bremridge said, "to ways of extending the revised pricing policy [to exclude land costs] to PSPS flats." However, production of other private-sector flats has been reduced by some 5,000 a year for the next four years and only 25,000 instead of an estimated 30,000 will be produced annually.

The provision of more land for PSPS flats, plus the 25% salary tax concessions are Bremridge's ways of helping to relieve pressure on the middle class — or sandwiched society — whom he acknowledged was "the mainstay of the community."

Meanwhile, a safety net of social welfare payments was extended to 253,000 poor, elderly and severely disabled persons who "cannot make their fair way in society" — an increase of 21,000 people. Payments provided under the public assistance, old-age allowance and disability allowance scheme are not generous: HK\$175-350 a person a month according to circumstances and HK\$165-250 to dependents, plus rent allowances.

This level of payments, however, is very much in keeping with the government's view that Hongkong is not a welfare state. Arguably, it will stop 253,000 people from starving in the streets. Only some 5.5% of the public assistance caseloads consist of unemployed persons or those earning a low income, a government statement claimed.

Social welfare's share of the public-sector cake has been reduced from 4.2% to 3.9% though, in money terms, its HK\$1.5 billion budget is up 15%. But more public rows about allocation of the government's largesse will undoubtedly ensue: the Hongkong Council of Social Services, an umbrella organisation for voluntary services funded largely by the government, is already complaining of insufficient funding which, it claims, is restraining much-needed needling of the government bureaucracy.

The government, however, is not stinting on its community building efforts. In fiscal 1982, social welfare voluntary agencies will receive 75% more financing totalling nearly HK\$81 million to operate a string of youth, children and community centres and to organise activities to encourage public participation in identifying social needs, to mobilise community resources to meet these needs, to develop volunteer service groups and promote good relationships among neighbours. Community building will take up 32% of

welfare subventions this fiscal year compared to 27% in 1981-82.

It was a simple enough budget in broad terms: there was no need to raise more money through increased direct or indirect taxes so tax concessions amounting to HK\$1.4 billion were granted to salary workers, industrialists and players in the foreign-exchange market.

However, no fiscal restraints on car ownership were introduced, despite clear warnings a week before by Secretary for Transport Alan Scott that something had to be done to check the 30% increase in private cars since 1979. From his budget speech, it is apparent that Bremridge is not prepared to enter into acrimonious debate with the car owners' lobby over fiscal restraints. It will be left to transport officials to devise restraints on car usage.

If expenditure and revenue estimates work out according to plan, the surplus in fiscal 1982 is expected to be a modest HK\$3.7 billion — down from the flush HK\$10.5 billion in 1980-81 and HK\$7.6 billion in 1981-82.

Of course, all Bremridge's hand-wringing about restraining the size of the public sector presupposes GDP will achieve an 8% real growth. He did not indicate how he would respond to a smaller growth though on other occasions he has stated that the government will not spend its way out of a recession.

He expected Hongkong's main markets to import "substantially more" this year — 2% by the United States, 9.5% by Britain



### THE LINK TO YOUR FINANCIAL FUTURE: THREE IN ONE

Personal Financial Consultants Ltd now offers a straight forward managed fund using three of Jardine Fleming's funds.

#### The Three Funds

- JF Currency and Bond Fund — International interest bearing securities with particular emphasis on currency considerations. Gold and silver may also be purchased.
- JF Pacific Securities Trust — Investment in Japan, South East Asia and Australia.
- JF International Trust — Worldwide equity investment; fixed interest securities and gold may also be considered.

#### Management

PFC, in conjunction with Jardine Fleming, will advise you on the spread of investment between the three funds, low cost switches can be made between funds to allow for changing investment conditions. Regular valuations and reports will be provided.

Investment Record (as at 31st January 1982)

Fund		3 Years	2 Years	1 Year
JF Currency & Bond Fund	US\$	—	+ 27.42%	+ 7.40%
	HK\$	—	+ 54.03%	+ 19.59%
JF Pacific Securities Trust	US\$	+ 81.94%	+ 68.42%	+ 0.73%
	HK\$	+ 122.83%	+ 103.45%	+ 10.00%
JF International Trust	US\$	+ 62.45%	+ 11.58%	- 15.70%
	HK\$	+ 98.87%	+ 34.78%	- 6.60%

The three funds reflect the performance of their respective areas of investment.

#### Tax Advantages

The three funds are tax efficient accumulation funds; all dividends are automatically reinvested. Full tax details can be supplied relevant to the investor's country of residence. Substantial tax advantages are available to the non-resident of Australia and the United Kingdom prior to their return.

Minimum Investment: US\$2,000

To find out more details of the funds and how to invest, please complete the tear-off coupon and mail it.

W.H. Glover  
 Managing Director  
 Personal Financial Consultants Ltd  
 1301 World Trade Centre Causeway Bay, Hong Kong  
 Telephone: 5-7908448 Telex: 63477 PFC HX  
 Please send me details of how to invest in PFC's JF Managed Fund

Name: \_\_\_\_\_  
 Address: \_\_\_\_\_

Telephone (if you wish to be called): \_\_\_\_\_







and 1.5% by West Germany. However, Bremridge cautioned that "stubbornly high inflation rates may lead these countries to adopt even more restrictive fiscal and monetary policies (which) would obviously affect adversely their demand for Hongkong products." He nevertheless projected domestic exports to these three markets to rise by 6-7%, to the rest of the world, Hongkong would export 8% more products this year.

It remains to be seen whether legislative councillors will take up an oblique invitation from Bremridge to censure govern-

## THE BELONGERS

# There's more to honey than money in this hive

Comparisons between the Overseas Chinese twins Hongkong and Singapore are irresistible despite their obvious political, social and environmental differences. The Republic of Singapore has many admirers among Hongkong Chinese who are British Dependent Territory citizens.

Yet Singapore's leaders have diagnosed a worrying social symptom — the all-for-one-and-one-for-himself approach to life which leads to the decline of a society. They also warn that years of virtually uninterrupted progress and prosperity can be speedily reversed; that people seek a leadership which, like Moses, can lead them through a desert, and that the role of an elected opposition "is to ensure bad government."

In Hongkong, looking out for No. 1 is also a way of life; there is no elected government, much less an opposition, and there is no leadership to lead them out of the political fog which thickens as 1997 approaches. What can replace disintegrating social traditions when there is the overriding problem of an uncertain future? Do people here really care for the trappings of a democratic system of government?

The REVIEW asked four middle-class Hongkong Chinese how they perceived the social and political problems of this unique territory. Educated in the West — and to a higher quality of life — they have nevertheless returned to make the best out of what is often seen as a difficult situation. Although this is hardly a poll from which broad conclusions can be drawn, it is nevertheless an insight into this urban beehive. There is more to the honey here than just money, apparently.

FANNY CHEUNG, 31, spent nine years studying and working in California and Minnesota where she received her doctorate in psychology. Now a lecturer at the Chinese University, Cheung says she decided to return. "I come from Hongkong, and as I'm working in psychology, I feel more affinity to the people I'm working with here. In the US, it was only a professional feeling. I realised I'd always be a foreigner there. There's more meaning to what I do if I do it in Hongkong because I belong here."

ment expenditure on the burgeoning civil service. Another 16,500 posts have been provided for this year, increasing the size of the establishment by about 12%. Civil service salaries — HK\$6.7 billion or 35% of recurrent expenditure — make no allowance for pay rises this year. Last year's 17% rise was the subject of much public criticism. "The total size of the civil service has increased substantially in recent years," he said. "None of us is satisfied that the most effective use is being made of staff resources. This is one area that will require particular attention."

Cheung is involved in 10 community organisations concerned with women's rights, mental health and education concepts. "I'm doing as much as I can in civic duties," she explains, "because there's so much that needs to be done in Hongkong. It's up to the people. Our education system does not cultivate civic-mindedness. There are signs of budding public consciousness — but they're still too few."

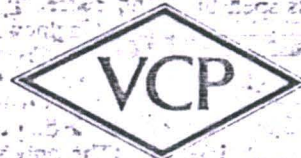
"Most people value material things because they get ahead this way, and they feel they must get ahead. It's the reward system of our society. There's nothing bad



about wanting certain things so long as it doesn't hurt personal relationships and communal coexistence. But people have become pragmatic and less concerned about spending time with others just to spend time."

However, Cheung says the poor quality of human relationships in Hongkong is typical of all fast-moving cities. "The other danger in a fast-moving and materialistic society is the trend towards individualism. People feel they have nothing in common except to grab the same things. But modernisation and Westernisation need not have such a negative effect. You shouldn't be rewarded just because you've been able to achieve for yourself, but because you've achieved for others — like the family in traditional Chinese culture or the company in Japanese culture. Minding the group's interest does not necessarily contradict modernisation. There are ways of cultivating the collective system in an urban environment. Our schools could place emphasis on group projects to achieve a certain goal instead of pushing individuals to achieve over other individuals. In our high-rise housing estates, communal effort is necessary for basic things like security and a cleaner environment."

Would the right to vote, for example, in the newly-introduced district boards — or even to elect a government — help to make Hongkong a more civic-minded society? "Perhaps," Cheung said. "I don't see our system in terms of a colonial as against a democratic one. The right to vote per se is less important than having the right people willing to serve in the government. It is important to educate people to appreciate and best use our form of government. A lot needs to be done in this direction. Also, if a change is planned because of the 1997 issue, there should be a transition during which people should be given the opportunity to learn how to govern"



**VERNES ASIA LIMITED**

wholly owned subsidiary of

**BANQUE VERNES ET COMMERCIALE DE PARIS**

52 Avenue Hoche, Paris

established in France since 1821

We offer the following services:

- Short and medium term loans
- Letters of credit and trade financing
- Real estate and building mortgage
- Loans against securities
- Syndicated Loans
- Underwriting
- Deposit-taking (local and Euro-currencies)
- Foreign Exchange and money market operations

Capital

Authorised and Paid-up HK\$10,000,000.

Address : 802 World-wide House, 19, Des Voeux Road Central, Hong Kong  
 Telephone : 5-257201 (10 lines) 5-265209, 265300 (Forex)  
 Telex : 61419 VERNES HX 61420 VERNE HX (Forex)  
 Cable : VERNASIA  
 Managing Director : Andre UTARD  
 Director : Poon Kwong Ho



1. THE FUTURE OF HONG KONG WAS THE MAJOR TOPIC OF DISCUSSION WHEN CHINESE COMMUNIST PARTY (CCP) VICE CHAIRMAN ((DENG)) XIAOPING AND OTHER CHINESE LEADERS MET WITH LEADING HONG KONG BUSINESSMEN IN BEIJING ON 15 JUNE 1982.

CHINA INTENDS TO ASSERT ITS SOVEREIGNTY OVER HONG KONG BUT WILL OTHERWISE TRY TO MAINTAIN THE STATUS QUO. TO ACCOMPLISH THESE AIMS CHINA HAS THE FOLLOWING PLANS:

A. TO MAKE HONG KONG A SPECIAL AUTONOMOUS DISTRICT WHICH WILL GOVERN ITSELF BUT FLY THE CHINESE NATIONAL FLAG. THE GOVERNOR OF HONG KONG WOULD NOT BE APPOINTED FROM BEIJING BUT WOULD BE "ELECTED" LOCALLY BY THE PEOPLE OF HONG KONG. THEORETICALLY, THE GOVERNOR COULD BE BRITISH, IF THE PEOPLE OF HONG KONG CHOSE HIM TO BE.

B. TO PERMIT HONG KONG TO CONTINUE ITS PRESENT ECONOMIC, MONETARY AND LEGAL/JUDICIAL SYSTEMS. THE HONG KONG DOLLAR AND HONG KONG FOREIGN EXCHANGE RESERVES WOULD BE TOTALLY INDEPENDENT OF CHINESE CONTROL. THE LEGAL/JUDICIAL SYSTEM WOULD ALSO REMAIN INDEPENDENT, ALTHOUGH SOME OF THE SYSTEM'S TERMINOLOGY WOULD HAVE TO BE CHANGED TO MAKE THE SYSTEM INTRINSIC TO HONG KONG AND NOT TIED TO BRITISH HERITAGE. (SOURCE COMMENT: IT APPEARS THAT THE HONG KONG POLICE WOULD REMAIN AN INDEPENDENT BODY BUT BRITISH MILITARY ELEMENTS WOULD EITHER HAVE TO LEAVE HONG KONG OR BE INCORPORATED INTO THE LOCAL GOVERNING STRUCTURE.)

2. WHEN ASKED WHETHER CHINA VIEWS 1997 AS THE TARGET DATE FOR IMPLEMENTING THESE CHANGES, THE CHINESE LEADERS DID NOT RESPOND DIRECTLY. THEY INDICATED THAT THE CHANGES COULD TAKE PLACE EITHER BEFORE OR AFTER 1997. THEY ALSO STRESSED THAT

THE TRANSITION FROM BRITISH TO CHINESE POSSESSION WOULD BE ACCOMPLISHED VERY SLOWLY AND CAREFULLY. CHINA DOES NOT WANT TO UNDERMINE INVESTOR CONFIDENCE OR CREATE ANXIETY AMONG HONG KONG RESIDENTS. IN THIS REGARD, THE CHINESE LEADERS CAUTIONED THE HONG KONG BUSINESSMEN NOT TO DIVULGE THE CONTENT OF THE PRESENT DISCUSSIONS; THESE TALKS WERE "TOP SECRET" AND MUST BE HELD IN STRICTEST CONFIDENCE. THE CHINESE LEADERS SEEMED CONFIDENT THAT, WHILE THERE WILL BE SOME FLIGHT OF FINANCIAL CAPITAL FROM HONG KONG IMMEDIATELY AFTER CHINA'S PLANS FOR THE COLONY BECOME KNOWN, INVESTORS WILL RETURN ONCE THEY REALIZE THAT HONG KONG'S ECONOMIC VIABILITY WILL NOT BE THREATENED.

THE LONG HISTORY OF POLITICAL UPHEAVAL THAT CHINA HAS EXPERIENCED SINCE THE CCP CAME TO POWER IN 1949 DOES NOT INSPIRE CONFIDENCE AMONG HONG KONG BUSINESSMEN AND FOREIGN INVESTORS THAT CHINA WILL PROVIDE A

DECLASSIFIED

NLRR m299/1 # 92241

BY RW NARA DATE 12/20/17



STABLE ECONOMIC ENVIRONMENT IN HONG KONG AFTER 1997. CHINA IS VERY NAIVE IF IT THINKS IT CAN CREATE SUCH CONFIDENCE IN THE NEAR TERM.

3. THE VISITING HONG KONG BUSINESSMEN RAISED THE QUESTION OF CHINA GIVING HONG KONG 15 YEARS ADVANCE NOTICE BEFORE "TAKING BACK" THE COLONY. THE CHINESE LEADERS RESPONDED THAT SUCH NOTIFICATION WOULD BE IMPOSSIBLE SINCE IT WOULD NOT BE IN ACCORD WITH THE PRINCIPLE OF CHINESE SOVEREIGNTY OVER HONG KONG.

4. THE CHINESE LEADERS ADDED THAT CHINA WOULD NOT MAKE ANY COMPROMISES IN ITS POSITION ON THE FUTURE OF HONG KONG WHEN BRITISH PRIME MINISTER MARGARET ((THATCHER)) VISITS CHINA IN THE FALL OF 1982.



# WITHDRAWAL SHEET

Ronald Reagan Library

*Collection Name*  
LAUX, DAVID: FILES

*Withdrawer*  
CAS 6/9/2010

*File Folder*  
CHINA-FOREIGN RELATIONS-HONG KONG (3/2/82-6/30/82)

*FOIA*  
M09-299/1  
COLLINGS

*Box Number*  
13

4

---

<i>ID</i>	<i>Document Type</i> <i>Document Description</i>	<i>No of</i> <i>pages</i>	<i>Doc Date</i>	<i>Restric-</i> <i>tions</i>
92242	CABLE 232104Z MAR 82	1	3/23/1982	B1 B3

---

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.



Department of State

PAGE 01 HONG K 09400 01 OF 02 141349Z 3908  
ACTION EA-12

HONG K 09400 01 OF 02 141349Z

Hong Kong  
POL 2 28  
RG

INFO OCT-00 COPY-01 ADS-00 INR-10 EUR-12 SS-10 CIAE-00  
EB-08 DODE-00 H-01 NSC-01 NSAE-00 COME-00 HA-06  
L-03 TRSE-00 PH-09 PA-01 ICAE-00 SP-02 SPRS-02  
/078 W

SUN HUNG KAI'S ACQUISITION OF A PERCENTAGE OF MERRILL LYNCH SERVED TO REINFORCE THE MESSAGE TO CHINA'S LEADERSHIP THAT HONG KONG FIRMS, UNCERTAIN ABOUT THE FUTURE, ARE NOW DIVERSIFYING.)

-----324653 141414Z /45  
R 141131Z JUN 82  
FM AMCONSUL HONG KONG  
TO SECSTATE WASHDC 1430  
INFO AMEMBASSY LONDON  
CHINA POSTS COLLECTIVE

4. FUNG KING HEY BELIEVES THAT ZHAO WELL UNDERSTANDS THE VALUE OF HONG KONG TO CHINA. WHAT ZHAO TOTALLY FAILED TO GRASP WAS THAT THE UNITED KINGDOM REALIZES LITTLE MONETARY GAIN FROM HONG KONG. APPARENTLY HE BELIEVED, BASED ON HONG KONG REPORTING, THAT HONG KONG TAX DOLLARS AND RESERVES ENDED UP IN THE U.K. TREASURY. HE COULD NOT UNDERSTAND WHY THE UNITED KINGDOM WOULD BE WILLING TO REMAIN IN HONG KONG WITHOUT SUBSTANTIAL MONETARY BENEFITS.

~~CONFIDENTIAL~~ SECTION 01 OF 02 HONG KONG 09400

E.O. 12065: GDS 6/11/88 (LEVIN, BURTON) OR-M  
TAGS: PEPR, EINV, HK, CH, UK  
SUBJECT: 1997: AN ARRANGEMENT IN THE WORKS?

5. THE KEY QUESTION OF WHO ADMINISTERS HONG KONG REMAINS TO BE DECIDED. ONE POSSIBILITY MENTIONED BY TSIM IS FOR LOCAL HONG KONG ADMINISTRATION BY THE PEOPLE ALREADY IN POWER--SUCH AS HADDON-CAVE AND JOHN BREMIDGE. YOUDE WOULD BE THE LAST GOVERNOR APPOINTED BY LONDON.

SUMMARY: FUNG KING HEY, CHAIRMAN OF SUN HUNG KAI SECURITIES (HONG KONG'S LARGEST SECURITIES FIRM) AND SUN HUNG KAI BANK, LTD. MET WITH CHINA'S PRIME MINISTER ZHAO ZIYANG ON APRIL 16 TO DISCUSS HONG KONG'S FUTURE. T. L. TSIM, FUNG'S ASSISTANT, GAVE ECONOFF THE FOLLOWING READ-OUT ON THEIR EXTENSIVE CONVERSATION, AND THE PRESENT STATUS OF THE 1997 LEASE ISSUE. ACCORDING TO TSIM, ALL PARTIES HAVE REACHED AGREEMENT TO MAINTAIN THE STATUS QUO IN HONG KONG. CHINA IS MAINLY CONCERNED WITH MAINTAINING FACE. ZHAO WELL APPRECIATES THE VALUE OF HONG KONG TO THE PRC, BUT HAS THE MISCONCEPTION THAT THE U. K. REALIZES VAST MONETARY GAINS FROM HONG KONG. THE KEY QUESTION OF WHO ADMINISTERS HONG KONG REMAINS. ACCORDING TO TSIM, THE BRITISH ARE NOW DRAWING UP A LIST OF THEIR MINIMUM REQUIREMENTS CONCERNING HONG KONG'S FUTURE. CHINA AND THE U. K. ARE MOVING TOWARD AN AGREEMENT. THIS WILL BE AN IMPORTANT ISSUE WHEN PRIME MINISTER THATCHER VISITS BEIJING AND HONG KONG IN SEPTEMBER. A SUBSEQUENT CONVERSATION WITH THE HONG KONG GOVERNMENT'S (HKG) ASSISTANT POLITICAL ADVISOR CONFIRMED THAT THE PRIME MINISTER WILL ALSO VISIT HONG KONG DURING HER SEPTEMBER CHINA VISIT AND THAT THE U.K. GOVERNMENT IS INDEED DRAWING UP A LIST OF ITS MINIMUM REQUIREMENTS. HOWEVER, THE ASSISTANT POLITICAL ADVISOR EXPRESSED DOUBT THAT AN AGREEMENT COULD BE CONCLUDED BY SEPTEMBER. END SUMMARY.

6. THE BRITISH ARE NOW DRAWING UP A LIST OF THEIR MINIMUM DEMANDS CONCERNING HONG KONG'S FUTURE. THESE WILL INCLUDE THE INDEPENDENCE OF THE HONG KONG DOLLAR AND THE INDEPENDENCE OF THE JUDICIARY (ALTHOUGH THE HIGHEST APPEAL COURT COULD BE LOCATED IN HONG KONG RATHER THAN LONDON). THE BRITISH ARE TAKING THE ATTITUDE THAT THESE ARE MINIMUM DEMANDS; WITHOUT THEM THEY WILL LEAVE. THE BRITISH GOVERNMENT IS VERY CONSCIOUS ABOUT MAINTAINING CHINA'S FACE. WHEN FUNG SUGGESTED TO HIS HKG CONTACTS THAT THE HKG PAY A REGULAR ANNUAL PAYMENT TO THE PRC FOR HONG KONG, THE HKG OFFICIAL REPLIED THAT ANY IDEA OF THIS NATURE MUST APPEAR TO BE INITIATED BY CHINA.

1. FUNG KING HEY AND ZHAO ZIYANG MET APRIL 16 FOR TWO-AND-A-HALF HOURS, EXCEEDING THE SCHEDULED ONE-AND-A-HALF HOURS, AND DISCUSSED HONG KONG'S FUTURE. T. L. TSIM, ASSISTANT TO CHAIRMAN FUNG KING HEY, BRIEFED ECONOFF ON THEIR EXTENSIVE CONVERSATION AND THE PRESENT STATUS OF THE 1997 LEASE ISSUE. FUNG IS WELL-KNOWN IN HONG KONG FOR HIS EXCELLENT CONTACTS HERE AND IN CHINA. HIS FIRM RECENTLY SIGNED AN AGREEMENT WITH THE U.S. SECURITIES FIRM OF MERRILL LYNCH.

7. TSIM BELIEVES CHINA AND BRITAIN ARE MOVING TOWARD

2. ACCORDING TO TSIM, THE PRC, THE BRITISH GOVERNMENT, AND THE HONG KONG GOVERNMENT (HKG) HAVE ALL AGREED UPON THE DESIRABILITY OF MAINTAINING THE STATUS QUO IN HONG KONG. CHINA'S MAIN PROBLEM IS WITH THE QUESTION OF FACE. ZHAO ZIYANG ASKED FUNG, "HOW DO I EXPLAIN THIS TO MY PEOPLE?"

3. ZHAO QUERIED FUNG EXTENSIVELY ABOUT WHAT WOULD HAPPEN IF NO AGREEMENT IS REACHED. FUNG REPLIED THAT SEVENTY PERCENT OF HONG KONG'S TOP BUSINESS TYCOONS, THE VERY PEOPLE THE PRC NEEDS TO MAINTAIN HONG KONG'S USEFULNESS TO CHINA, WOULD LEAVE. (SHORTLY AFTER FUNG RETURNED TO HONG KONG THE ANNOUNCEMENT OF

DECLASSIFIED

NLRR M299 # 92243

BY KML NARA DATE 6/21/12



PAGE 01 HONG K 09400 02 OF 02 141351Z  
ACTION EA-12

3906

HONG K 09400 02 OF 02 141351Z

INFO OCT-00 COPY-01 ADS-00 INR-10 EUR-12 SS-10 CIAE-00  
EB-00 DODE-00 H-01 NSC-01 NSAE-00 COME-00 HA-06  
L-03 TRSE-00 PH-00 PA-01 IC&E-00 SP-02 SPRS-02  
/078 W

-----324654 141414Z /45

R 141131Z JUN 82  
FM AMCONSUL HONG KONG  
TO SECSTATE WASHDC 1431  
INFO AMEMBASSY LONDON  
CHINA POSTS COLLECTIVE

LEM. THE CRITICAL QUESTION OF THE FUTURE FORM OF THE ADMINISTRATION OF HONG KONG COULD BE A KNOTTY ONE TO RESOLVE. THE BRITS ARE PLAYING DOWN PROSPECTS FOR A SETTLEMENT DURING THATCHER'S VISIT TO MINIMIZE GLOOM HERE IN THE EVENT IT IS NOT FORTHCOMING, BUT THEIR CAUTION IS PROBABLY WELL JUSTIFIED IN LIGHT OF THE COMPLEXITIES OF THE ISSUE.

LEVIN

~~CONFIDENTIAL~~ SECTION 02 OF 02 HONG KONG 09400

AN AGREEMENT. THE MOST LIKELY AGREEMENT, ACCORDING TO TSIH, WOULD BE A WRITTEN STATEMENT WHICH RECOGNIZES CHINA'S SOVEREIGNTY OVER HONG KONG IN AN OPENING PARAGRAPH. THE FOLLOWING PARAGRAPH WOULD ENDORSE THE STATUS QUO, PERHAPS WITH A PROVISION ALLOWING CHINA TO TAKE BACK HONG KONG UPON DEMAND WITH A 20-YEAR ADVANCE NOTICE.

8 PRIME MINISTER THATCHER WILL BE IN PEKING FOR SIX DAYS IN SEPTEMBER, FOLLOWED BY TWO DAYS IN HONG KONG. PRESS CONFERENCES ARE SCHEDULED DURING BOTH VISITS. ALTHOUGH THE UNITED KINGDOM IS DOWNPLAYING SPECULATION THAT AN ARRANGEMENT WILL BE REACHED AT THIS TIME, ALL PARTIES ARE HARD AT WORK TO REACH ONE.

9. THE FALKLAND ISLANDS CRISIS HAS HELPED SPUR CHINA TO EXPLORE AN ARRANGEMENT OVER HONG KONG'S FUTURE. IT DEMONSTRATED WHAT CAN HAPPEN IF ISSUES ARE LEFT TO REACH THE CRISIS STAGE. CHINA AND THE UNITED KINGDOM CAN AGREE ON HONG KONG NOW WHILE PRIME MINISTER THATCHER AND VICE-PREMIER DENG ARE STILL IN POWER, OR THEY CAN LEAVE HONG KONG'S FUTURE TO THE REALM OF THE UNKNOWN. THE DESIRE IS NOW MANIFEST ON BOTH SIDES, ACCORDING TO OUR SOURCE, TO COME TO SOME ARRANGEMENT ON HONG KONG'S FUTURE.

10. IN A SUBSEQUENT CONVERSATION, HKG'S ASSISTANT POLITICAL ADVISOR (APOLAD) CONFIRMED THAT PRIME MINISTER THATCHER WILL VISIT HONG KONG AND JAPAN AFTER HER SEPTEMBER CHINA VISIT. ECONOFF MENTIONED HAVING HEARD THAT THE BRITISH WERE DRAWING UP A LIST OF MINIMUM REQUIREMENTS. HE SAID WE WERE "WELL INFORMED;" HIS GOVERNMENT IS NOW WORKING ON THIS PAPER. HE WILL BE IN LONDON SHORTLY TO WORK ON THE 1997 PROBLEM. HE REPEATED THE TRADITIONAL BRITISH GOVERNMENT LINE THAT PROGRESS MAY BE DIFFICULT TO ACHIEVE. PRIME MINISTER THATCHER IS PREOCCUPIED WITH THE FALKLANDS; HE HOPED SHE WOULD "GET CRACKING" LATER! HE EXPRESSED DOUBT AN AGREEMENT COULD BE REACHED IN SEPTEMBER. THE TIMING IS NOT PROPITIOUS FOR THE CHINESE TO MOVE UNTIL AFTER THE 12TH PARTY CONGRESS WHEN VICE-CHAIRMAN DENG XIAOPING CAN RID THE PARTY OF CERTAIN PEOPLE. CHINA'S LEADERS FEAR 1997 COULD BECOME A WEAPON IN A FACTIONAL FIGHT. HOWEVER, APOLAD TWICE ADDED THE CAVEAT THAT HE COULD BE WRONG; THE CHINESE ARE ALWAYS CAPABLE OF SURPRISING THE U.K. HE IS NOT CERTAIN DENG REALIZES JUST HOW DIFFICULT THIS PROBLEM IS, ALTHOUGH IT IS NOW IN HIS IN BOX--A SIGN OF PROGRESS THAT THE CHINESE ARE NOW WILLING TO FOCUS ON THIS KNOTTY ISSUE.

COMMENT: IT IS SIGNIFICANT THAT CHINA'S LEADERS ARE NOW BEGINNING TO GIVE MORE SERIOUS THOUGHT TO THE 1997 PROB-

~~CONFIDENTIAL~~



UNCLASSIFIED  
Department of State

INCOMING  
TELEGRAM

30

LT  
copy

PAGE 01 HONG K 09639 01 OF 02 171208Z

9856

HONG K 09639 01 OF 02 171208Z

ACTION EA-12

INFO	OCT-00	COPY-01	ADS-00	AID-07	INR-10	EUR-12	CIAE-00
	EB-08	H-01	IO-15	EXIM-04	NSAE-00	LAB-04	TRSE-00
	AIT-02	OPIC-07	OMB-01	STR-14	SIL-01	FRB-01	AGR-01
	ICAE-00	SP-02	/103 W				

-----077725 171628Z /52

R 171043Z JUN 82  
FM AMCONSUL HONG KONG  
TO SECSTATE WASHDC 1516  
INFO AMEMBASSY BANGKOK  
AMEMBASSY BEIJING  
AMEMBASSY CANBERRA  
USMISSION GENEVA  
AMCONSUL GUANGZHOU POUCH  
CINCPAC HONOLULU HI  
AMEMBASSY JAKARTA  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY LONDON  
AMEMBASSY MANILA  
AMEMBASSY SEOUL  
AMCONSUL SHANGHAI POUCH  
AMEMBASSY SINGAPORE  
AMEMBASSY TOKYO  
AIT TAIPEI  
USDOC WASHDC

UNCLAS SECTION 01 OF 02 HONG KONG 09639

GENEVA FOR SHEPHERD

E.O. 12065: N/A  
TAGS: ECON, EGEN, ETRD, HK  
SUBJECT: HONG KONG SUFFERS FROM EXPORT SLUMP

SUMMARY: HONG KONG'S DOMESTIC EXPORTS FAILED TO GROW IN REAL TERMS DURING THE FIRST QUARTER OF 1982, COMPARED WITH THE SAME PERIOD LAST YEAR. EXPORTS TO THE UNITED STATES HELD UP BETTER THAN TO HONG KONG'S OTHER RECESSION-HIT MARKETS. WITH SUCH DISAPPOINTING FIRST QUARTER RESULTS, WE DOUBT THAT THE HONG KONG ECONOMY CAN ACHIEVE THE HONG KONG GOVERNMENT'S (HKG) GOAL OF 7 PERCENT REAL GROWTH IN DOMESTIC EXPORTS AND 8 PERCENT REAL GROWTH IN GROSS DOMESTIC PRODUCT IN 1982. HONG KONG'S ECONOMIC PERFORMANCE WILL ALSO BE ADVERSELY AFFECTED BY RECENT FLOODS. RECENT REDUCTIONS IN INTEREST RATES WILL NOT PROVIDE MUCH STIMULUS TO GROWTH. HONG KONG'S COMPETITORS - KOREA, SINGAPORE, AND TAIWAN - ARE ALSO SUFFERING FROM THE RECESSION IN THEIR MAJOR MARKETS. HONG KONG'S FLEXIBILITY WILL ENABLE ITS ECONOMY TO REACT QUICKLY TO PROFIT FROM ANY UPTURN IN THE ECONOMIES IN ITS MAJOR EXPORT MARKETS - THE UNITED STATES, THE UNITED KINGDOM, AND WEST GERMANY. ALL SAID, HONG KONG'S ECONOMIC GROWTH IN 1982, EVEN IF LESS THAN THE HKG PROJECTS, WILL STILL BE MOST IMPRESSIVE BY WORLD STANDARDS. END SUMMARY.

1. REFLECTING THE RECESSION IN HER MAIN MARKETS, HONG KONG IS EXPERIENCING SETBACKS IN INTERNATIONAL TRADE THIS YEAR. FIRST QUARTER DATA SHOWED NO REAL GROWTH IN DOMESTIC EXPORTS, COMPARED WITH THE SAME PERIOD LAST YEAR. THE LAST TIME HONG KONG REGISTERED ZERO REAL GROWTH IN DOMESTIC EXPORTS IN ANY ONE QUARTER WAS DURING THE 1974-75 RECESSION. IN CURRENT PRICES, DOMESTIC EXPORTS GREW 9 PERCENT DURING THE FIRST QUARTER. HONG KONG'S APRIL EXPORT FIGURES, (NOT YET ADJUSTED FOR INFLATION) SHOWED SOME IMPROVEMENT; DOMESTIC EXPORTS ROSE 11.9 PERCENT BY VALUE OVER APRIL OF LAST YEAR.

2. HONG KONG'S EXPORTS TO THE UNITED STATES IN THE FIRST QUARTER HELD UP BETTER THAN TO ITS OTHER RECESSION HIT MARKETS. EXPORTS TO THE UNITED STATES GREW 12 PER CENT BY VALUE (IN CURRENT PRICES), COMPARED WITH THE FIRST QUARTER OF LAST YEAR; EXPORTS TO THE EEC DECLINED ONE PERCENT.

3. DOMESTIC EXPORTS ARE CRUCIAL TO HONG KONG'S ECONOMY. IN 1981, DOMESTIC EXPORTS ACCOUNTED FOR 59 PER CENT OF HONG KONG'S TOTAL GROSS DOMESTIC PRODUCT OF HK\$135,340 MILLION (US\$124,315 MILLION AT HK\$5.566 EQUALS US\$1 IN 1981). MOREOVER, 36 PERCENT OF HONG KONG'S LABOR FORCE IS EMPLOYED IN THE MANUFACTURING SECTOR.

4. WE DOUBT THAT HONG KONG'S ECONOMY CAN ACHIEVE THE HKG'S GOAL OF 7 PERCENT REAL GROWTH IN DOMESTIC EXPORTS AND 8 REAL GROWTH IN GDP THIS YEAR. EVEN WHEN THE U.S. AND EEC ECONOMIES RECOVER, THE EFFECTS IN HONG KONG WILL LAG ABOUT SIX MONTHS OR MORE. ANOTHER DISCOURAGING INDICATION IS THE DECLINE IN HONG KONG'S RETAINED IMPORTS DURING THE FIRST QUARTER. THESE DROPPED 5 PERCENT IN REAL TERMS, COMPARED WITH THE SAME PERIOD LAST YEAR. RAW MATERIALS AND SEMI-MANUFACTURERS RECORDED A 7 PERCENT DROP AND FUELS A TEN PER CENT DROP IN MARCH THIS YEAR, COMPARED WITH THE SAME MONTH LAST YEAR. THESE TRENDS ARE WORRYING BECAUSE OF THEIR IMPLICATIONS FOR EXPORT PERFORMANCE IN THE COMING MONTHS.

5. HONG KONG'S 1982 ECONOMIC PERFORMANCE WILL ALSO BE ADVERSELY AFFECTED BY RECENT FLOODS. HONG KONG EXPERIENCED ITS WORST RAINSTORM IN TEN YEARS. FROM MAY 29 TO JUNE 1, TORRENTIAL RAINS CAUSED SOME 500 LANDSLIDES AND 1,400 REPORTS OF FLOODING. ACCORDING

*Handwritten note:*  
\$115.5 million  
→



UNCLASSIFIED  
Department of State

31  
INCLUDING  
TELEGRAM

PAGE 01 HONG K 09639 02 OF 02 171212Z  
ACTION EA-12

9852

HONG K 09639 02 OF 02 171212Z

WHEN COMPARED WITH WORLD STANDARDS. LEVIN

INFO OCT-00 COPY-01 ADS-00 AID-07 INR-10 EUR-12 CIAE-00  
EB-08 H-01 IO-15 EXIM-04 NSAE-00 LAB-04 TRSE-00  
AIT-02 OPIC-07 OMB-01 STR-14 SIL-01 FRB-01 AGR-01  
ICAE-00 SP-02 /103 W

-----077756 171628Z /52

R 171043Z JUN 82  
FM AMCONSUL HONG KONG  
TO SECSTATE WASHDC 1517  
INFO AMEMBASSY BANGKOK  
AMEMBASSY BEIJING  
AMEMBASSY CANBERRA  
USMISSION GENEVA  
AMCONSUL GUANGZHOU POUCH  
CINCPAC HONOLULU HI  
AMEMBASSY JAKARTA  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY LONDON  
AMEMBASSY MANILA  
AMEMBASSY SEOUL  
AMCONSUL SHANGHAI POUCH  
AMEMBASSY SINGAPORE  
AMEMBASSY TOKYO  
AIT TAIPEI  
USDOC WASHDC

UNCLAS SECTION 02 OF 02 HONG KONG 09639

GENEVA FOR SHEPHERD

TO THE AGRICULTURAL AND FISHERIES DEPARTMENT, THE RAIN KILLED 400,000 POULTRY AND 7,000 PIGS AND FLOODED 40 PER CENT OF THE 1,000 HECTARES OF VEGETABLE FIELDS IN HONG KONG. LOCAL PRICES OF VEGETABLES AND AGRICULTURAL PRODUCTS ROSE AS A RESULT. THE AGRICULTURE AND FISHERIES DEPARTMENT'S MOST RECENT ESTIMATES SHOW A TOTAL LOSS IN CROPS AND ANIMALS OF HK\$20.6 MILLION (APPROXIMATELY US\$3.54 MILLION), PLUS HK\$3 MILLION (US\$520,000) IN DAMAGE DONE TO FISH PONDS. THE EMERGENCY RELIEF SCHEME ENTITLES FARMERS TO COMPENSATION; THE HONG KONG GOVERNMENT WILL FACE A TOTAL COMPENSATION BILL OF ABOUT HK\$3 MILLION (US\$520,000).

6. RECENT REDUCTIONS IN INTEREST RATES WILL NOT PROVIDE MUCH STIMULUS TO GROWTH. HONG KONG BANKS' DECIDED TO CUT THE PRIME RATE BY ONE PERCENTAGE POINT. EFFECTIVE MAY 31 THE PRIME RATE WAS LOWERED FROM 16 PERCENT TO 15 PERCENT. SAVING RATES ARE NOW AS FOLLOWS: 9 PERCENT FOR 24-HOUR CALL, 7-DAY CALL, ONE AND TWO WEEK DEPOSITS; 11 PERCENT FOR ONE, NINE AND TWELVE MONTH DEPOSITS; AND 11.5 PERCENT FOR TWO TO SIX MONTH DEPOSITS. THE LAST RATE REDUCTION TOOK PLACE DECEMBER 7, 1981. THE HONG KONG ASSOCIATION OF BANKS CITED ITS PREFERENCE FOR STABILITY OVER A SERIES OF SMALL ADJUSTMENTS AS THE REASON FOR THEIR DELAYED REDUCTION IN PRIME RATES AT A TIME WHEN THE HIGH COST OF BORROWING PRESENTED A PROBLEM TO LOCAL MANUFACTURERS. FROM THE LOCAL MANUFACTURERS' VIEWPOINT, THE RATE REDUCTION IS STILL NOT SUFFICIENT TO STIMULATE INVESTMENT.

7. COMMENT: HONG KONG'S CHIEF COMPETITORS - KOREA, TAIWAN, AND SINGAPORE - ARE ALSO BEING HURT BY THE RECESSION IN THEIR MAJOR MARKETS. HONG KONG'S FLEXIBILITY WILL ENABLE IT TO TAKE ADVANTAGE OF ANY UPTURN IN THE ECONOMIES OF ITS MAJOR EXPORT MARKETS - THE UNITED STATES, THE UNITED KINGDOM, AND WEST GERMANY. EVEN IF HONG KONG IS NOT ABLE TO ACHIEVE ITS PROJECTED 8 PERCENT REAL GDP GROWTH TARGET THIS YEAR, ITS GROWTH RATE WILL STILL BE MOST IMPRESSIVE

UNCLASSIFIED



INCOMING TELEGRAM  
PRC  
Hong Kong  
Dtt  
RG

PAGE 01 HONG K 10056 241244Z  
ACTION EA-12

7767

HONG K 10056 241244Z

INFO OCT-00 COPY-01 ADS-00 INR-10 EUR-12 SS-10 CIAE-00  
DODE-00 H-01 IO-15 NSC-01 NSAE-00 HA-06 L-03  
PM-09 AIT-02 PA-01 ICAE-00 SP-02 SPRS-02 /087 W  
-----364130 241416Z /50

R 241057Z JUN 82  
FM AMCONSUL HONG KONG  
TO SECSTATE WASHDC 1618  
INFO CHINA POSTS COLLECTIVE  
CINCPAC HONOLULU HI

~~CONFIDENTIAL~~ HONG KONG 10056

CINCPAC FOR POLAD

E.O. 12065: GDS 6/23/88 (LEVIN, BURTON) OR-M  
TAGS: PEPR, CH, HK  
SUBJECT: DENG XIAOPING'S MEETING WITH HONG KONG CHINESE  
LEADERS

REF: HONG KONG 9400

1. (C-ENTIRE TEXT)

2. BEGIN SUMMARY. PRC LEADERS ARE CONTINUING TO CONSULT WITH PROMINENT HONG KONG CHINESE OVER THE FUTURE OF HONG KONG AND OTHER ISSUES. MOST RECENTLY DENG XIAOPING MET WITH TWELVE PRO-PRC LEADERS FROM VARIOUS WALKS OF LIFE FROM HONG KONG AND MACAO. THE PURPOSE OF THESE TALKS, AS WITH SEVERAL LEADING BUSINESS TYCOONS EARLIER, SEEMS TO HAVE BEEN ON THE ONE HAND TO GATHER OPINIONS ON WHAT HONG KONG NEEDS FOR CONTINUED ECONOMIC STABILITY AND ON THE OTHER TO DEMONSTRATE TO HONG KONG INVESTORS JITTERY ABOUT THE 1997 ISSUE THAT THE PROBLEM IS RECEIVING TOP-LEVEL ATTENTION IN BEIJING. END SUMMARY.

3. ON JUNE 15 VICE PREMIER DENG XIAOPING MET WITH TWELVE PROMINENT PRO-PRC CHINESE LEADERS FROM HONG KONG AND MACAO. THE GROUP INCLUDED BUSINESSMEN, LABOR UNION LEADERS, PUBLISHERS, AN EDUCATOR, A PHOTOGRAPHER, AND A WOMEN'S GROUP LEADER. ELEVEN LIVE IN HONG KONG AND ONE IS FROM MACAO. ALL ARE MEMBERS OF THE NATIONAL PEOPLE'S CONGRESS OR THE CHINESE PEOPLE'S POLITICAL CONSULTATIVE CONFERENCE. HONG KONG'S PRC-CONTROLLED PRESS GAVE FRONT-PAGE COVERAGE TO THESE MEETINGS, BUT SAID NOTHING ABOUT THE CONTENT OF THE CONVERSATIONS.

4. LU KENG, THE PUBLISHER OF THE INDEPENDENT BAI XING MAGAZINE, WHO CLAIMS TO HAVE TALKED WITH SEVERAL OF THE PARTICIPANTS, TOLD A CONGENOFF THAT DENG HAD TOLD THEM THAT CHINA INTENDS TO "RECOVER" (SHOU KUI) ITS SOVEREIGNTY OVER HONG KONG, BUT THAT IT HOPES TO PRESERVE THE CITY'S PROSPERITY AND THE CURRENT ECONOMIC SYSTEM "AS MUCH AS POSSIBLE." PRIVATE INVESTMENT MUST BE GUARANTEED. DENG SOLICITED THEIR OPINIONS ON HOW THIS COULD BEST BE DONE. IN A JUNE 23 CONVERSATION WITH CONGENOFFS, THE LEADER OF THE GROUP, DA GONG PAO PUBLISHER FEI YIMIN, TRIED TO PLAY DOWN THE PROMINENCE OF THE 1997 ISSUE, SAYING THAT DENG'S DISCUSSIONS WITH THE VISITORS COVERED THE WHOLE CURRENT SITUATION IN HONG KONG, OF WHICH THE 1997 ISSUE WAS ONLY ONE PART. THE MEETINGS, HE SAID, SHOWED THE IMPORTANCE CHINA'S TOP LEADERSHIP PLACES ON HONG KONG AND MACAO IN GENERAL. VARIOUS OTHER PRC CADRES HAVE SIMILARLY TRIED TO PLAY DOWN THE 1997 ISSUE, POINTING OUT

FOR EXAMPLE THAT THE DRAFT CONSTITUTION WAS ALSO DISCUSSED.

5. COMMENT. THE JUNE 15 VISIT COMES IN THE WAKE OF A SERIES OF MEETINGS IN RECENT MONTHS BETWEEN TOP PRC LEADERS AND SOME OF HONG KONG'S LEADING TYCOONS, INCLUDING Y. K. PAO, LI KA-SHING, HENRY FOK AND FUNG KING HEY. PREMIER ZHAO ZIYANG SOLICITED FENG'S VIEWS ON HONG KONG BUSINESSMEN'S REACTIONS TO THE 1997 ISSUE (REFTEL), AND THIS SUBJECT WAS PROBABLY A PROMINENT PART OF THE OTHER DISCUSSIONS AS WELL.

6. THE CHINESE, LIKE THEIR BRITISH COUNTERPARTS, SEEM TO BE TRYING TO KEEP DOWN THE PROFILE OF THEIR PROSPECTIVE NEGOTIATIONS OVER THE FUTURE STATUS OF HONG KONG, PRESUMABLY TO PREVENT UNDUE DISAPPOINTMENT IN THE LIKELY EVENT THAT NO BREAK-THROUGH WILL BE MADE AT THE TIME OF PRIME MINISTER THATCHER'S VISIT TO CHINA IN SEPTEMBER. NEVERTHELESS, THE IMPLICIT MESSAGE OF THE RECENT VISITS FOR HONG KONG INVESTORS IS THAT THE PRC IS NOW AWARE AT THE HIGHEST LEVELS THAT THE EXPIRATION OF THE NEW TERRITORIES LEASE IN JULY 1997 IS THREATENING TO CAST ITS SHADOW ON CURRENT BUSINESS DECISIONS IN HONG KONG, THAT BEIJING DOES NOT INTEND TO LET THE MATTER DRIFT, AND THAT IT IS SERIOUS ABOUT PRESERVING AN ECONOMIC STRUCTURE THAT HONG KONG CAPITALISTS WILL FIND CONGENIAL. NEVERTHELESS, THE ASSURANCES SO FAR ATTRIBUTED TO MAINLAND LEADERS HAVE NOT BEEN SOLID ENOUGH TO SATISFY MOST HONG KONG ENTREPRENEURS.

LEVIN

DECLASSIFIED

NLRR M299 # 92244

BY KML NARA DATE 6/21/12





DEPARTMENT OF STATE

Washington, D.C. 20520

92245

3

~~SECRET/NOFORN/NOCONTRACT/ORCON~~

June 25, 1982

MEMORANDUM

TO : EA - Mr. Thomas Shoesmith, Acting  
FROM : INR - Herman J. Cohen, Acting  
SUBJECT: The Future of Hong Kong

13526  
E.O. 12958  
As Amended  
Sec. 3.3 b(1)(6)

SUMMARY:

Recent reporting from our Consulate General in Hong Kong and sensitive [redacted] sources indicates China has decided to assert its sovereignty over Hong Kong in 1997 but believes it can leave intact the island's current economic system. The exact role China intends the British to play and the changes it will make in the crown colony's political and social structures have yet to be determined. Beijing realizes, however, that the more post-1997 arrangements resemble current ones, the better not only for its own interests in preserving the vital role Hong Kong plays in the mainland's economy but also for its efforts to woo Taiwan.

KEY POINTS:

--In an April discussion with former British Prime Minister Heath [redacted] Vice Chairman Deng said China will assert its sovereignty over Hong Kong when the New Territories lease expires in 1997 but also will affirm China's intention to maintain the crown colony's economic system and status as an international port. In February, according to another clandestine report, Party Chairman Hu Yaobang endorsed the concept of allowing two different systems to exist within one country, and stated this could be used to resolve the problems of Taiwan, Hong Kong, and Macao.

--Deng also envisages Hong Kong as a special zone under Chinese rule but with British participation in the governing structure. Such an arrangement, admittedly ambiguous at this

~~SECRET/NOFORN/NOCONTRACT/ORCON~~  
RDS-2,4, 6/25/02

DECLASSIFIED IN PART

EXEMPT M299, #92245  
BY RW NARA DATE 10/20/17



stage, might give investors confidence in the island's future and stem the growing trend by financiers to transfer their assets to foreign countries. The Chinese want to prevent any situation that could cause them to lose one of their principal sources of foreign exchange (up to 40% of which is earned through Hong Kong) and contribute to unemployment and social unrest. They may also fear that managerial, technical and capital flight out of Hong Kong could lead to unwillingness by overseas Chinese to invest in China's Special Economic Zones and other modernization programs.

--Our Hong Kong Consulate General reports that Fung King Hey, chairman of a large securities firm and bank in Hong Kong, warned Zhao that, unless an agreement on the colony's status is reached soon, 70% of the island's businessmen would leave. Old British Taipans such as Jardines and Swire, and new Chinese Taipans like Y.K. Pao and Li Ka-shing have also doubtless conveyed this message. The Hong Kong Government itself, in need of borrowing in the capital markets for large infrastructure projects, has also let Beijing know of its need for an early decision. In a late June meeting with pro PRC leaders from Hong Kong, Deng addressed this concern and reaffirmed Beijing's intent to preserve an economic structure which would be congenial to the island's capitalists.

--[REDACTED] reporting in April indicated that China and Britain had reached an agreement on the sovereignty issue and Britain's continuing role and that this would be made public in early May. (The Falklands crisis could have caused a delay.) However, some differences over roles and administration still exist. While it is possible an announcement of a plan for the island's future will be made during Mrs. Thatcher's fall visit to China, a communique seems more likely at that time, indicating agreement on the general outlines of a settlement and specifying the need for ongoing discussions.

COMMENT:

For the PRC, regaining sovereignty over Hong Kong is an important political objective. The manner in which this is accomplished, however, is of equal importance, especially to the continued health of the island's economy, and will have direct implications for Taiwan reunification. Preserving a British role, and many of the methods of economic organization is vital to insuring investor confidence, and would demonstrate



to Taiwan that non-socialist structures can be successfully incorporated under a communist government and can be administered by those who formerly guided them. However, placing ultimate authority over the vital economic decisions in the hands of a communist official with a totally different philosophy from the territory's famous laissez-faire attitude will challenge the best of imaginations. Although Beijing has better than ten years to finalize the arrangement, early agreement on sovereignty and the configuration of the island's government will be an important demonstration of Beijing's ability to follow through on matters relating to its national honor and financial needs. It will also demonstrate how well China takes into account the sensitivities and priorities of those with whom it deals.

INR/EAP:RGoldberg:slg