

# 1975

## THE COUNTDOWN BEGINS

China was still under the rule of Mao Zedong and the Gang of Four but had resumed its *laissez-faire* policy towards Hong Kong.<sup>1</sup> Most Hong Kong people had not considered the 1997 problem but it was emerging as an urgent concern for the business community. We predicted economic calamity if the 1997 problem was not resolved by 1985. From 1975, this column systematically assessed the development of this issue. Between 1975 and 1984, we conjectured and theorized about how political consciousness would change, how the colonial government would handle the change in sovereignty, and how foreign investors would react in the face of this change. The suppositions and arguments in these articles have not been edited; history has proven their relevance and prescience.

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1 Following the 1967 anti-government riots, China kept a close eye on the political activities in Hong Kong, but this was no longer the case by 1975.

2 MAY 1975

## HONG KONG'S INCREASING ECONOMIC IMPORTANCE TO CHINA

Of the many opinions Henry Fok Ying-tung<sup>2</sup> gave in last week's interview with the *Hong Kong Economic Journal*, there is one with which we could not agree: he believes that Hong Kong's economy will be unimportant to China after 1997. Hong Kong's political significance to China does not preclude its economic value. Let us look at some recent trade figures.

Although Japan has replaced Hong Kong as China's top trading partner, China's trade deficit means that it does not generate a net profit from this trade relationship. Contrast this with China's trade with Hong Kong. In 1974, China exported goods in excess of HK\$6 billion to Hong Kong while importing just over 300 million. That is a net gain of HK\$5.6 billion. Although HK\$5.6 billion is a pittance for the giant Chinese economy, China relies on this foreign currency (equivalent to around US\$1 billion) to acquire technology from developed nations. Buying China-made products is good for Hong Kong. Being China's most important source of foreign currency and therefore its best customer can affirm Hong Kong's political value to China. More Chinese-funded department stores in Hong Kong will bring greater stability to Hong Kong as well; their communist supporters are less likely to instigate unrest if Chinese businesses are at stake. Chinese businesses in Hong Kong give China an incentive to want peace in Hong Kong. To this end, we disagree with the slogan: 'Hong Kong people use Hong Kong goods' as it would hinder Hong Kong's bid to become China's best customer. (If one cannot afford to buy Chinese imports, then buy rejects from Hong Kong exports. At least that would give Hong Kong factories extra revenue and provide employment to Hong Kong's many hawkers.) In the face of escalating political and military strife, Indochina will have less to contribute to China.<sup>3</sup> Since the regime change, Chinese residents there have been unable

2 Henry Fok Ying-tung (1923–2006), Hong Kong entrepreneur and businessman, active in PRC politics, eventually becoming Vice Chairman of China's National Congress in 1993.

3 In 1975, the communist North Vietnam overpowered the previously US-backed South Vietnam.

to transfer money to China. Any relationship between China and Indochina from now on will be one of benefactor and beneficiary; China will not make a profit from the relationship. As the situation in Indochina deteriorates, Hong Kong's economic importance to China rises. This is a point that deserves our attention, attentiveness, and appreciation.

**29 JULY 1975**

## CONJECTURING ABOUT HONG KONG'S FUTURE

Signed in 1898, the Second Convention of Peking<sup>4</sup> leases the New Territories to Britain for 99 years. China never acknowledged the treaty and British Hong Kong saw no need to comment on it. The 1997 deadline is still no less of a threat to the Hong Kong people. The year 1997 acts like a voodoo spell: Daily business carries on as usual but most people are planning exit strategies as if propelled by black magic. 'Even if not for ourselves', they claim when pressed, 'we've got to give our next generation options.'

Being used to life and making a living in Hong Kong, it is not easy for Hong Kongers to adjust to living in a foreign country. Businessmen and investors in the stock market know Hong Kong as 'the easiest place in the world to make money' and they do not want to leave it. What many choose to do is to acquire the right of abode in a foreign country by fulfilling the minimum residency requirement and then returning to Hong Kong to continue to make a good living. In the next few years, we shall see

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4 The Treaty of Nanking (1842) ceded Hong Kong Island to Britain in perpetuity; the Convention of Peking (1860) ceded the part of Kowloon Peninsula south of present-day Boundary Street, Kowloon, and Hong Kong (including Stonecutters Island) in perpetuity to Britain. The Second Convention of Peking (1898) stipulated that the territories north of what is now Boundary Street and south of the Sham Chun River, as well as the surrounding islands later known as the 'New Territories', were to be leased to the United Kingdom rent free for a term of 99 years that would expire on 30 June 1997. The territory thus became part of the crown colony of Hong Kong. In 1975, it was still widely assumed that Hong Kong and Kowloon (south of Boundary Street) would remain British in perpetuity, while the lease of the New Territories might be extended beyond 1997 when the original leasehold expired.

an increasing number of people returning to Hong Kong for work or business with their newly acquired citizenships or permanent residencies as insurance.

The richer the individuals, the more sensitive they are to political change and the more anxious to acquire legal status abroad. Seeing how foreigners and locals alike can make money in Hong Kong, affluent Hong Kongers see no downside to becoming foreign citizens. They plan to make quick profits in Hong Kong and to transfer their wealth to countries in which there is no foreseeable political threat.

Within a decade, Hong Kongers in every stratum will forego long-term investment for gambling and speculation. Hong Kong and Macau will become the twin Vegases of the East; in Macau, speculation takes place in the casino while in Hong Kong it will take place on the race course, at the lotteries, and in the stock market in the form of futures and government bonds. Hong Kong people will start to lean to the left politically when the large corporations located in Hong Kong shift their interests abroad. Why? Of the conglomerates, only Hutchison still keeps the majority of its investments and assets in Hong Kong; the others have already begun to transfer funds out of the territory, as have tycoons their private wealth. Recent purchases of Hong Kong-based tycoons include a beach in South America, a street in North America, and an island in the Bahamas. When more people realize that the largest listed companies and the richest tycoons are invested in Hong Kong in name only, they will feel abandoned by the capitalists and swing towards their ideological polar opposite—communist China.

People who have the means to obtain foreign status will watch the crisis in Hong Kong from afar; if a social revolution erupts, the corporations and individuals with the most assets abroad will suffer the least damage. Current political struggles in the region make it likely that more of Southeast Asia will fall into communist hands. However, barring a power reshuffle in Peking, Hong Kong should be exempt because of its importance to the Chinese economy. As 1997 looms, discontented Hong Kong residents might petition Peking to reclaim sovereignty of Hong Kong when the lease of the New Territories expires, which would pose a challenge for Peking. If Peking does not intend to reclaim Hong Kong, will Hong Kong declare autonomy?