

*The Worshipful Company of World Traders*

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by

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Hong Kong 1997: Before and After Transition

Lord Mayor, My Lords, Ladies and Gentlemen,

Let me say at the outset that I am glad to see so many of you interested in Hong Kong. Although Hong Kong takes itself very seriously, I have been told that the Territory is not a particularly important subject to the average Briton. I also know that you have been inundated with many speeches and learned articles during the past years and months. This flood will obviously only increase as we come closer to the magic date of the 1<sup>st</sup> July, now 141 days away. Journalists will of course be looking for drama in the transition.

I expect most of you will be familiar with the background story leading to the forthcoming change in sovereignty over Hong Kong from Britain to China. Many of you here in the City will be aware of the reasons for Hong Kong's astounding economic success. Any additional recitation of the facts and figures will not necessarily make a complex situation more easily comprehensible. I therefore do not intend to quote you chapter and verse on Hong Kong's GDP per capita, the costs of the new airport, the daily volume transacted on the local foreign exchange market, the large number of financial institutions operating in the Territory, the amount of funds invested from Hong Kong to China (2).

The Hong Kong Government Office in London will, I am sure, be pleased to provide you with all the statistics you need, and additionally give you all the required background material on the Joint Declaration, the Basic Law, the deliberations of the Sino-British Joint Liaison Group, or of the Land Commission. You will also already know that my ship-owner colleague, C.H. Tung, has been selected as the Chief Executive-designate, and is now completing the process of deciding on his team and his policies.

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(1) Chairman, World-Wide Shipping Agency Ltd, Hong Kong; Vice Chairman, Pacific Basin Economic Council (PBEC), Honolulu.

(2) For those interested: GDP per capita in 1995 was US\$23,300, higher than UK's; Hong Kong is the world's 8<sup>th</sup> largest trading economy; total new airport costs, including ancillary infrastructure projects, will be in excess of US\$20 billion. The present airport handles over 27 million passengers a year, and Hong Kong saw over 10 million tourists in 1996. Hong Kong houses 166 foreign banks out of a total of 192 licensed banks; the market capitalisation of the HK stock market is over US\$380 billion; the daily turnover on the foreign exchanges is US\$90 billion. Hong Kong was the source of about 60% of the US\$395 billion external investments in China between 1979 and 1995, and of one-third of China's foreign exchange earnings. Close to 800 companies have set up regional headquarters in Hong Kong. There is no capital flight but ongoing further inward investment (led by Japan in manufacturing, and by the UK in non-manufacturing sectors). Migration has slowed and many emigrants are returning to Hong Kong with their foreign passports.

All that you presumably really want to hear about is: what will happen to Hong Kong in future? More specifically, can one continue to do good business there after July 1997? Will Hong Kong remain an attractive base for operations in the Far Eastern region, and a major bridge to China? The short answer is yes. After all, what are the alternatives that would meet all your required qualifications?

When discussing the outlook for Hong Kong, let me emphasize at the start that I am an optimist by nature. I have to be: I am a ship-owner. But I also always try to remain a realist, both when looking at the determinants for the shipping markets, or at future political developments. I cannot claim to be a prophet but I believe in the predictability of human nature. Particularly so when it concerns the collective behaviour of large groups and not of single individuals. When attitudes are shaped over many centuries and become almost instinctive reactions, as is the case in China, forecasting actually becomes a bit easier.

Naturally any predictions, from whatever source, must always be taken with a grain of salt. I, for one, never thought that plans for the return to China of the very successful Hong Kong community could be drawn up so efficiently, and be implemented so relatively smoothly. The Joint Declaration was a remarkable achievement and full credit is due to its drafters. In other circumstances, and between different protagonists, such an event would surely have not been possible without a serious military conflagration. Remember the Falklands Islands.

While on the subject of forecasting, let me quote you excerpts from a speech I made in Hong Kong in May 1988 to a group of foreign diplomats (3). This was a year before the events of Tiananmen Square, which of course were not foreseeable, but which have since been regarded as a turning point in the Sino-British dialogue on matters affecting Hong Kong's transition. My comments also preceded the promulgation of the Basic Law for the Hong Kong Special Administrative Region (SAR) by the National People's Congress in early 1990.

In 1988 I said: "The 'one country, two systems' slogan was a highly imaginative political solution to a potentially serious negotiating deadlock. It not only worked wonderfully as such, but created a stock of goodwill which has helped, and will help, to facilitate the discussions about the very real practical problems of the proposed merger. Because that is really what it is all about: Hong Kong's merger into China, into a national system with simply other objectives and ambitions – it does not matter whether they are similar, better, or worse than those previously pursued by Hong Kong or the United Kingdom. And, like in any corporate merger, where there is subordination rather than fusion into a new entity, Hong Kong will by necessity become like the operating division of the larger parent company.

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(3) See *South China Morning Post*, 29<sup>th</sup> May 1988.

No matter what philosophies moved previous management, or how strong the original corporate identity was, the ultimate result of such a merger will still be the same as it is in the commercial world: submersion".

"My point is simply that when approaching issues like constitutional reform, localisation of legislation, or the Basic Law drafting process, we should do so on the assumptions that on the 1<sup>st</sup> July 1997, Hong Kong will not just co-exist with the rest of China wrapped in the cellophane shield of 'a high degree of autonomy'. In my view, the Hong Kong SAR will become an integral part of China not only in legal and territorial terms, but in commercial and social terms as well".

But I concluded on a positive note: "Hong Kong will however take a prominent place in the development of the larger Southern Chinese area. The Territory will use its inbuilt advantages – indeed *must* use them – to spearhead reform and growth through education, through example, and through the provision of a competitive spur. Hong Kong will export its system across the border to speed up progress in the adjacent Provinces and more quickly reduce the gaps still existing. With its

location, facilities, and entrepreneurial drive, Hong Kong is ideally placed to act as the commercial and eventually perhaps also as the political centre of Southern China”.

By comparison, about two weeks ago Singapore’s Senior Minister Lee Kuan Yew said: “ No human rights and democracy hero can reverse the inevitable – that over time Hong Kong will become more of a Chinese city, if by nothing else than by osmosis. The to-ing and fro-ing between six million in Hong Kong and the 66 million in Guangdong province, both Cantonese, will gradually make the two populations very much alike.....The Western gloss that gives that cosmopolitan air to Hong Kong will gradually be worn away by constant exchanges with China. Hong Kong’s leaders will subconsciously revert back to their Chinese cultural reflexes” (4).

As I look at what has happened in the debate over Hong Kong in more recent times – from the arguments over the composition of the Court of Final Appeal, the scrapping of the so-called “through-train” idea, and the setting up of a Provisional Legislature; to the selection of the first Chief Executive, the composition of his new Executive Council, or the current arguments about the necessity (or the lack thereof) to amend a number of Hong Kong ordinances – I find that I do not need to change my earlier views.

Hong Kong, so it was agreed in the Joint Declaration of 1984, is to become an integral part of China. From the Chinese perspective, admittedly a part with an internal border, and retaining some peculiar local arrangements, but a part of China nevertheless. China will resume full sovereignty over Hong Kong, subject only to certain concessions granted to the local population to organise their domestic affairs, and then again subject to final approval by the Central Government in Beijing.

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(4) Reported in *South China Morning Post*, 11<sup>th</sup> Feb 1997, page 15

Outside of China post-1997 there is little that any foreign government – including the British Government – can effectively do except watch what happens in the Hong Kong SAR, and perhaps wiggle a raised forefinger if there is no liking of specific developments. But no foreign government will go to war against China over Hong Kong; neither will a foreign government make itself unpopular by challenging the Chinese Government’s ultimate decision-making power as to how the promised autonomy is exercised. That is really the bottom line. Applying my corporate analogy, there are simply no more minority shareholders in the subsidiary who can have different opinions and voting rights.

A much more effective way than seeking confrontation in arenas which one cannot control is to pursue the same options that are open to suppliers and customers of an unpopular or rogue enterprise: withhold business. I know that it is eminently fashionable today to say that business and politics should not be mixed, but of course the daily reality proves otherwise, even more so as the world globalises. My point simply is: if ultimately one is not prepared to lose existing custom or attractive potential business opportunities, then one should not wave political sticks or engage in defamatory actions either. Paper tigers get blown away quickly, and empty rhetoric more often than not makes one the object of ridicule.

Policy vacillations are even worse; they open loopholes that the other side can exploit. It seems the United States is gradually learning that lesson in dealing with China. “Constructive engagement” should mean a serious effort at understanding what makes the other side tick, accompanied by the patient exploration of existing areas of consensus to establish mutual trust, followed by an equally patient discussion of the controversial issues. And especially in the case of China, this has to be done in a spirit of equality. Every business school student learns these basic techniques in a course on negotiation; it is surprising how many people still believe that other tactics can work in international relations, or that an amicable and conciliatory approach does not automatically have to equate to defeatism, or the *a priori* abandonment of principles.

The Joint Declaration was accepted by the majority of Hong Kong people when first negotiated and signed as a pragmatic and workable agreement under the prevailing circumstances.

Today Britain is criticised by some Hong Kong politicians as having 'betrayed' the Territory and its people. I frankly do not understand their logic. To take just one of the arguments: if Britain had been able to grant full British passports to all Hong Kong belongers, then the Joint Declaration need not have been as elaborate a construct. It could have consisted of the simple agreement to withdraw the British presence at midnight of 30<sup>th</sup> June this year. Every Hong Kong believer would have had the choice of staying, or moving to Britain and there partake in the joys and pains of the British social welfare and tax regimes.

The British Government did at first appear to be acting irresponsibly with regard to the ethnic minorities in Hong Kong, most of Indian descent, who would have ended up stateless after the 1<sup>st</sup> July. As with any job redundancies following a corporate merger, one would expect sympathetic consideration for those involuntarily and without their fault suddenly finding themselves on the street. I am happy to note from a recent statement by the Home Secretary that this criticism is no longer valid. I salute the British Government for having made this very important and correct decision at what I appreciate is a difficult political time. I hope implementation will follow swiftly.

Britain made no specific promises in the Joint Declaration to do anything except to continue with the good administration of Hong Kong until the time of the handover. It did not promise (indeed it *could* not have promised, or the Joint Declaration would not have been signed) that it would issue passports to all Hong Kong residents, introduce more democratic institutions in Hong Kong, or create specific safeguards against mainland Chinese interference in Hong Kong affairs after 1997. Any claims to the contrary we now hear from the local politicians – in other words, that Britain had moral obligations beyond the agreed text – are simple after-thoughts and fly in the face of the historical background and the spirit of the agreement.

The Chinese on their side, having made certain concessions to recognise the historic fact of a territory having been administered in a different fashion from the rest of the country for quite a long time, found the existing colonial institutions and procedures in Hong Kong very suitable arrangements to preserve.

The Chinese Government was naturally aware that earlier attempts by the British administration in Hong Kong to introduce democratic reforms had been resisted by the local Hong Kong elite. This happened largely because of fears that any changes would antagonise China. But to a certain extent they were also resisted because the Hong Kong people had found the colonial system of government to be sufficiently fair, and eminently well suited to let them achieve their goals of not having to get involved in politics, and having more time to make money. Which of course they managed to do with a vengeance. The rule of law, founded on an independent judiciary and a clean government, was handed to Hong Kong on a silver platter.

It is an undisputed fact that Hong Kong does not owe its renowned economic and social success to democratic institutions and practices. Neither does the success of quite a few other countries in the Far East. The same can of course be said of the record of most European countries in the 19<sup>th</sup> Century (5). Unfortunately we often make the error of comparing apples and oranges, and we all have short memories. On the other hand, I will not deny that we have progressed somewhat away from feudalism in Europe – I am not really *that* conservative!

At the time of the signing the Joint Declaration, China was happy in the expectation to take over a flourishing Hong Kong in 1997. China was convinced that Hong Kong had applied the right formula, a formula that China was aiming gradually to introduce all over the country, as reflected in the setting up of the Special Economic Zones. China could see itself adjusting to a Hong Kong with an autocratic, executive-led government, and with an appointed legislature, the latter only gradually moving towards an elected body over time. Although the Territory had quite a different set of legal

norms and a history of a greater emphasis on civil liberties, the political risks of re-integrating Hong Kong into a transforming China were, at that time and against the then existing background, seen as manageable.

Initially, both sides appeared to understand the necessity of treading cautiously in the rather untested waters of a lengthy transition period. The Chinese leadership was perhaps a little unrealistic in their belief that Hong Kong could be kept in social stasis after 1984: possibly the result of China's own isolation and relative inexperience in international dealings. But at least there was an ongoing and active exchange of views, both on the private and on several official levels. The existing contacts created a significant degree of mutual understanding and of cooperative sentiments.

As a consequence, in the early days of the transition period the 'Through Train' seemed feasible and practical to both sides. As Chairman of the Hong Kong Ship-owners Association, for example, I was involved in one of the earliest successful cases of implementing the Joint Declaration when Hong Kong established an autonomous Shipping Register which will move through the transition with only one obvious change, a different national flag on the stern of vessels. It was readily agreed to and put in place very smoothly, and the Hong Kong flag fleet has done well. Hong Kong continues as a major centre for ship-owning and ship-management, and for ship finance activities.

As I indicated earlier, Tiananmen changed the cosy relationship. The British Government and the Hong Kong population are still coping with the legacy of the discord that started at that time. Those events also created more disharmony at home in Hong Kong through the creation of more pronounced pro-and anti-China platforms among the local political groups.

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(5) Economist Miron Mushkat in Hong Kong suggests that in 19<sup>th</sup> Century Europe individual rights were selectively protected and the rules of due process were observed to a degree. One should note the qualifiers in this statement. He also says the new political leaders coming forward in Hong Kong have so far failed to protect the laissez-faire philosophy that has propelled the Territory from 19<sup>th</sup> century obscurity to 20<sup>th</sup> century prominence, and that they are out of tune with the spirit of the place. Only time will tell. See Mushkat, "A Reading List for Hong Kong's Next Rulers", in *The Asian Wall Street Journal*, 12<sup>th</sup> Feb 1997.

It led to a more assertive attitude by the Hong Kong Governor vis-à-vis China. And it produced a lot of posturing and name calling, and a number of unfortunate and rather unnecessary disputes, including the delays in agreement on certain important infrastructure projects. It is fair to say, however, that many other practical hurdles were still being overcome through discussions in the Sino-British Joint Liaison Group (6) and through administrative contacts at working level. And as the period to the deadline gets shorter, progress in sorting out remaining issues is naturally speeding up.

The rationale of making unilateral changes to the constitutional framework in Hong Kong and to some other legal markers, in the face of strong Chinese opposition, has always escaped me. In the various Legislative Council debates on constitutional reform in the late 1980's I had myself argued – leaving the China factor aside – that the community would be better served by a step-by-step approach to wider democracy over a longer period, given the existing cultural traditions and the lack of relevant experience in Hong Kong.

As an appointed Legislative Council member, I was never a politician. I was only trying to make what I thought were practical suggestions. But they struck a chord among the population. Of course, the political activists in Hong Kong were then (and still are) much more vocal and better organised. And they can indeed claim what seemed significant electoral victories. But foreign observers often tend to overlook that these victories were in fact minority results when one compares the winning votes to the total number of eligible voters in Hong Kong. The debates on these points should always be viewed in the context of a pronounced lack of interest in political engagement by the majority of the population.

If the recent constitutional changes were only introduced because of the forthcoming reunification, then they would have to be regarded as poison pills introduced by the management of a corporate takeover candidate, despite the takeover having already been agreed by the shareholders. Even in the business world such a course of action generates resentment and quite often retribution.

Why then should anyone be surprised at the Chinese Government for being unhappy with the course of events since Governor Patten arrived? Their reaction was predictable and it was therefore unwise to proceed. The counter-action chosen on the Chinese side is in the nature of Tit-for-Tat which – as you will know – has been proven repeatedly to be the most successful game strategy.

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(6) Whose work will incidentally continue past the handover date, until the 1<sup>st</sup> January 2000.

In the current Hong Kong situation this strategy produces some rather impractical or even anomalous outcomes as far as legal and administrative arrangements are concerned; however this does not at the moment appear to be of particular concern to the Chinese authorities. They are, after all, confronted with more difficult issues in other parts of the country. But to blame the Chinese authorities for their action, as the Governor still stridently and publicly does, is for the pot to call the kettle black. This is not necessarily helpful for the public perception of Hong Kong's future around the world, especially when in this period of heightened global interest in the fate of the Territory any and all differences of opinion tend to get magnified.

I believe the biggest mistake Governor Patten made during his term of office in Hong Kong was to raise local expectations, which both he and the British Government should have known they could not fulfil. While I concede that some of the measures taken might have been well intended, when dealing with questions of sovereignty, national pride, and the correction of a perceived historical wrong – and this after all is the way China sees the resolution of Hong Kong's status – a dose of cynicism might have produced better long-term results than the attempt, in the last few minutes before midnight, to rectify many years of insufficient British resolve and inaction.

Assessing the results of the changes introduced by the last British Governor, the interpretation from the Chinese side could only be negative. There is the suspicion that the British Government could be leaving a Fifth Column behind, and that Hong Kong in the years to come could as a result turn into a political trouble-spot within the greater China.

Rather than being able to depart with the glory of having smoothly delivered Britain's most successful colonial entity to its new owner under the agreed terms, Governor Patten will now leave Hong Kong heavily criticised by China and with his efforts unappreciated even by the majority of the local population, and likely soon forgotten by the outside world. The kindest thing one might say is that he achieved the *status quo* by pushing for more than what he really expected to get, rather than by standing still and just accepting the *status quo*. The unkindest thing that in retrospect might well be said of the Governor is that he made no lasting difference and that he fought a Quixotic battle with a reluctant army behind him. The switches were thrown long ago, when Lady Thatcher met Mr Deng Xiaoping in the autumn of 1982 in Beijing.

Criticism is an essential ingredient of politics. Commentators have also already started to criticise the future Chief Executive as being too close to the Beijing authorities and unable to make his own decisions. It is early days and the judgment is a bit unfair on both counts. Mr Tung would not have been selected for the position if the Beijing authorities did not consider him reliable, and expect him to be conscious of their preferences and priorities. Indeed, the fact that he is trusted by Central Government should in theory allow more room for practicing the domestic autonomy that has been promised Hong Kong.

Judging from his public statements to date, with a pronounced emphasis on the social values of the Chinese society and an expressed disdain of overt political activity, C.H. Tung does however seem to reflect a wish to turn the clock back in Hong Kong to the time before 1984. In this attempt he will not

easily succeed: nostalgia never serves very well as a lasting political platform. Hong Kong has been part of a political maturing process alongside the other communities in the Far East. And Hong Kong as part of China can also not expect to be insulated from what happens within the country, or what happens to China as a result of her relations with other nations.

It is somewhat unfortunate that the future Chief Executive was not allowed to have a honeymoon. He is put into the awkward position, very early in his political career, of having to rationalise the legality of the creation and the work of the Provisional Legislature, as well as justify the recommendations made by the Preparatory Committee to change certain laws back to the versions that existed prior to the enactment of the Bill of Rights Ordinance. As the legislation in question involves in particular the control of public demonstrations and of political groups, these suggestions are interpreted in many editorials around the world as clear signs that the protection of civil liberties in Hong Kong will not be a high priority of the SAR Government.

I would not jump to such immediate conclusions: while the Provisional Legislature is a certain fact, the legislative amendments proposed have not yet been put to bed and there are many serious voices calling for a re-think. It would be a retrograde step if the Bill of Rights Ordinance were to be watered down in its effects, merely as part of the Tit-for-Tat stratagem.

While the Joint Declaration provided that the laws of Hong Kong should remain basically unchanged during the transition period, the Hong Kong Government's action to comply with international convention requirements is itself difficult to criticise. The only comment one can justifiably make is that the Government should not have waited so long to do it. In any event, I believe the Chief Executive-designate is not correct in accusing legal experts, civil servants, and others of spreading misinformation in connection with this debate. It is one thing to justify clear policy decisions, but quite another to try and gloss over or explain away obvious weaknesses in any given argument. Such an approach does not normally reassure observers, especially when they are doubting Thomases at heart. Simply put, the whole affair could certainly have benefited from a better public relations touch.

On the other hand, the direct link that is being created between possible amendments to this particular legislation and the outlook for Hong Kong's continued economic success is in my view equally exaggerated. Political rights, civil liberties, and economic freedoms constitute a complex web of relationships and their interaction can produce very different results at different times in different locales. They therefore do not have predictable outcomes. Comments made to the contrary are superficial and could in fact prove damaging to the very interests they are meant to protect. What should be seen as more important, particularly by businessmen, are the public affirmations by the relevant Chinese authorities that they will respect Hong Kong's fiscal and monetary regimes, not extract taxes nor touch the extensive foreign exchanges reserves of the SAR, and that they will firmly control the physical border to prevent large-scale migration from China (7).

Whether one doubts the long-term feasibility of having two currencies – one convertible and the other not yet – in one country (8), is another question that will be answered by economic developments, not by a purely political decision. That is of course the point. And one should not forget that Chinese enterprises have been spending a lot of good money on the acquisition of stakes in Hong Kong commercial enterprises and in real estate and infrastructure projects: not a sign that they expect to get anything free after transition, but a good sign that they also anticipate an ongoing strong role for Hong Kong's economy.

I am a bit concerned with the Chief Executive's ideas about government intervention in the economy. Those ideas have not yet been well formulated and one should again not read too much into dinner speeches at this early stage. But some of these sentiments are also expressed by senior figures of the Chinese Government in Beijing, people who are clearly conscious of the responsibility they will carry for the well-being and for the ongoing attraction of the SAR to domestic and overseas business interests.

There are of course, as everywhere else, calls by local industrialists for more subsidies and for more support of specific vested interests. How could it be otherwise? Hong Kong however has done so extremely well in comparison to other economies in part also because of the ability of its government to resist the temptation of market interference and socio-economic engineering, beyond establishing the legal and institutional framework for market forces to operate in. Any change in this fundamental pillar of the operating style of Hong Kong's economy, however well-intentioned, in my opinion will create a basic change in the prospects for the SAR's development in future.

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(7) Senior People's Bank of China, and Bank of China representatives, in the presence of overseas central bankers, the head of the Hong Kong Monetary Authority, and of interested commercial bankers, have repeatedly given such assurances in seminars in London and New York.

(8) As Professor Milton Friedman of Chicago suggested in a recent talk in Hong Kong.

One hears a lot of talk about the need to retain a level playing field, and a fair chance for all economic interests to participate in the marketplace on equal terms: but once there is government intervention even in a positive way, it becomes very difficult to draw a line. For example, I am not personally convinced that Hong Kong needs to go back to becoming a base for manufacturing, after having successfully transformed itself into a service-sector economy for competitive reasons.

The relocation of manufacturing facilities into Southern China (9) did not happen because of government dictum or planning, but because the individual market participants were making very rational decisions. Resettling or starting new manufacturing activities in Hong Kong without also making other major market adjustments – to the labour market through a change in immigration policies – could turn out to be a major error.

I may be off course. I am not an economist. But I believe the 'hollowing out' arguments one comes across also in other countries require a lot more professional analysis. I see the future Hong Kong SAR principally as a provider of services to the other regions of China, in the fields of managerial and technical input, in accounting and other professional services, in financial engineering, transport, communications, entertainment, and tertiary or professional education. There is great demand exactly for these skills in China, so why not concentrate on them?

Hong Kong will never be able to compete with, say, Shanghai or Tienjin or Chengdu in industrial production, in primary industries, or in new land generation. Specialisation is the name of the game in the global economy of today and tomorrow, and if services can actually add more value, why try to turn a clock back that has moved forward by its own momentum?

The other problem I see for Hong Kong is the general lack of willingness among the local populace to dispute authority. This reluctance might be called a facet of the cultural heritage; it could just as well be described as an expression of the survival instinct that has shaped the mindset of many Chinese people as a consequence of the struggle for existence over centuries. A reed that bends in the wind does not break so easily. The hardship endured by millions in the old China has also given rise to the strong sense of family that now pervades all members of the Chinese race. Additionally, there appears to be a tradition – certainly in Hong Kong – that one should avoid making enemies, if at all possible, and also that one can deal with different partners with equal ease, even though these partners may in turn not see eye to eye with each other. And above all, that one should not stick one's neck out.

A few examples. Privately there was a high degree of consensus in the Hong Kong community last year that the current Chief Secretary in the Hong Kong Government, Mrs Anson Chan, was an ideal person for the job of Chief Executive. She is experienced and has a great deal of charm. If the truth

be known, Mrs Chan, was herself not all that keen to be a candidate, but I made an effort to suggest that public support should back up the private view so widely shared. I did not get very far. People sensed she would not be the Central Government's favourite. There was talk of a Tung/Chan 'dream team' providing the combination of the favoured son with the continuity and competence of a tried and tested professional. However, dreams belong to the realm of poems or children's stories, not to political reality. I wonder how long it will last.

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(9) Six million people are now estimated to work in China for Hong Kong economic interests.

Another illustration. When the proposed Bill of Rights legislative amendments were voted on by the Preparatory Committee the other day, there was only one vote against, 124 were for and there were several abstentions. The abstainers included political leaders from Hong Kong who had earlier publicly and forcefully expressed their serious objections. Did their abstentions now mean conditional approval or conditional disapproval? We shall never know. But they knew their actions would make no conceivable difference, so they played safe.

Of course, quite a few of the Hong Kong lawmakers had wholeheartedly endorsed the original enactments, only to declare now – as newly selected members of the Provisional Legislature – their full support for changing them back again. Other self-appointed spokesmen for the community (including some expatriates) turned into vocal promoters of the 'democratic rights of the people' and indulged in China-bashing. Alas they will not be around after July 1997, preferring instead to watch events from a safe distance abroad. I took issue with them in the past as I regarded their stance as callous and their politics hypercritical. I also disagree with the platform of the Democratic Party in Hong Kong, and my public arguments with their leader Martin Lee became the subject of cartoons in their time. But as politicians I have to say they are at least somewhat more consistent.

Nobody in Hong Kong wants to rock the boat, especially at this time of transition, and all of us living and working there want stability. But it is one thing to bend with the wind, and quite another for the reed to forget what has nourished it to grow in the first place.

What I am trying to suggest is that given this background, it may be rather difficult to implement and maintain the high degree of autonomy in the Hong Kong SAR that the Joint Declaration postulates. Relying on the resolve of the leader alone is not good enough. The whole community has to speak up for what its members believe or know are essential characteristics of their environment. Speaking up does not have to mean confrontation, controversy, or conflict at every turn. It does not necessarily have to involve the active criticism of somebody else's social or political ideas or practices. It may however require the courage to stick to one's guns when it comes to explaining why certain modes of behaviour are best suited to produce desired results.

It requires strength to resist the temptation to be helped. And it requires the determination and the skill to formulate convincing arguments, which in Hong Kong's case must be arguments that are couched in terms of overall national interest, not in the narrow interests of Hong Kong alone as has been a habit of the past. The Chinese Government is intent on turning the country into a stronger player on the world scene: Hong Kong should ensure that there is a full understanding in China of the need to protect the SAR's existing privileges for the resultant advantages they bring to the whole country.

In fostering good relations with China, the people of Hong Kong should develop constructive ideas how the SAR's unique style and attractions can best be marketed to the other parts of a rapidly modernising nation, how Hong Kong's human capital can be deployed to maximum effect, and how Hong Kong's skills can help to solve the many economic and social difficulties still extant on the mainland, whether they are connected with the state-owned sector, with the skill levels of the Inner Provinces, or with the large internal migration figures. While not totally indispensable to a country with 1.2 billion inhabitants, Hong Kong should probably proceed on the premise that it is very much

needed, but without ever becoming arrogant about it. Being too different only invites comparison and envy. Hong Kong cannot afford to be disliked or distrusted.

Particularly in a competitive place like Hong Kong with its service economy, the free flow of information will be crucial for ongoing economic prosperity, as it is a sign of self-respect as well as an important business tool. Self-censorship, or restrictions imposed from the outside, will reduce the level of knowledge, flexibility, the ready adaptability to changing circumstances of which we are so proud, and ultimately will reduce confidence.

The calls often heard for transparency in the conduct of government affairs is another aspect of the need for information, as it means having access to outside sources for data, standards, and practices. Here the continued separate membership by the Hong Kong SAR in international organisations, as stipulated in the Joint Declaration, will also continue to be important. Hong Kong should be particularly vigilant, on the other hand, in protecting the standards of its professionals, be they lawyers, dentists, doctors or accountants, from being undermined by imports with lesser qualifications.

We are often lectured about the importance of the rule of law. As a trained lawyer, I of course agree. But quite apart from the fact that the rule of law still means something different in China than it does in Hong Kong, it is a very general and abstract concept for the proverbial man in the street to readily understand. Especially so when it was always applied and did not need to be argued for. It might therefore be better to call for a strong commitment to the sanctity of contracts which is a concept most people can more easily comprehend, as it directly affects their daily lives. Sanctity of contracts also implies the absence of coercion, or of monetary persuasion of the kind that the Hong Kong Independent Commission Against Corruption has been fighting against in its work for 27 years. The freedom from fear in speaking up is also an important element in making sure that this particular battle can be won.

As critical as the rule of law is the integrity of government officials, and their promotion on merit rather than on connections. I believe we can count on the Hong Kong civil service maintaining high standards in this respect, as the traditions are strong. The Chief Executive-designate and his future team should set an example and be particularly open about how they will divest themselves of any commercial interests where these exist, following the practice in other countries.

In short, it will depend largely on the people of Hong Kong themselves how their future is going to look like. The Chinese Government is extremely competent as an administrator of national affairs, and naturally conscious of the fact that Hong Kong has a lot to offer. There is substantial goodwill present in Beijing and I do not doubt that every positive effort will be made to maintain the promises that were made. The views and opinions of the Hong Kong SAR population will be listened to, provided – as I said earlier – they are constructively presented on the basis of an understanding of what the national context requires.

For that reason it is even more important that Hong Kong presents a concise and unified view to reflect its concerns or when making its recommendations, not use the Central Government as an arbiter in every local disagreement, or merely as a sounding board or lobby chamber for sectoral interests, be they political or economic. In the absence of a considered community opinion, the Central Government will quickly impose its own views because that is what it is used to since taking control of China in 1949. Beijing will not allow a void to exist in the SAR and will then rather take action even at the cost of Hong Kong's standing and prosperity.

At present public confidence is high in Hong Kong. The stock and property markets are doing extremely well. There was a 6.6% increase in the number of business registrations for foreign companies locating in Hong Kong in 1996. The port still leads the world in container throughput, (10) and will continue to do so for many years, despite recent agreements to allow direct shipping links across the Taiwan Strait. More physical links with the mainland are being established on land, in the

sea, and in the air. More interchanges of personnel are taking place and universities link up academic programmes, students and teaching staff. Mainland enterprises are progressing with significant investments in Hong Kong, while Hong Kong businesses go on expanding their

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(10) In 1996 the throughput in the container port was 13.3 million TEU's still ahead of Singapore with about 12.6 million.

operations across the border. Chinese-owned firms are also increasingly listing shares on the Hong Kong Stock Exchange. These companies will also be a force for positive change in China's securities markets. Preparations for the change in the military garrison in Hong Kong are well in hand and the initial fears of having PLA troops stationed in the SAR have given way to a full understanding of the necessity therefore.

There is no need, in other words, to indulge in idle speculation, in excessive pessimism, or in doomsday scenarios, as far as Hong Kong and its immediate future are concerned. Please do not overreact to media stories that highlight one or the other negative aspect of life in Hong Kong or of the transition arrangements. Other countries and economies have their problems, too, although they have the good fortune not to have to adjust to such a fundamental change and at the same time be besieged by the world media. It would be equally wrong to engage in too much enthusiasm or wishful thinking as officials on occasion are prone to do because that is their job. I suggest you form a balanced view based on all the available evidence. As businessmen and world traders this should be second nature to you anyway!

The Hong Kong people are renowned for their hard work, for their willingness to take risks, and for the adaptability. As I indicated, they are not renowned for civil courage or for a love of controversy. But they have a good sense of what is right and wrong, they are pragmatic, and they are survivors. They have created one of the most admired communities on Earth, with little to build on except their zest for success. It will not be easy to destroy this spirit.

Nobody can say exactly what the longer-term future holds for Hong Kong. Or indeed for China. If anybody says he (or she) knows, please send them away. It is useless to think too far ahead, or to worry too much about how to maintain a separate system for the Hong Kong SAR over the next 50 years. It will not be possible. (11). Instead efforts should be concentrated on how to improve the present economic and financial systems, and how to ensure that Hong Kong remains competitive in world markets. Many technical matters following the transition still need to be addressed, citizenship and residency being only one of them. But we have a sound framework. It can be made to work.

1997 is the Year of the Bull. Banish the bears.

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(11) Any guess is as good as the next. The social dynamics are so strong all over East Asia that one cannot be sure of anything beyond a decade.