To the Graduate Council:

I am submitting herewith a thesis written by Edmond K. Lau entitled "An Assessment of Hong Kong's Political Future." I recommend that it be accepted in partial fulfillment of the requirements for the degree of Master of Science, with a major in Geography.

Bruce A. Ralston

Bruce A. Ralston, Major Professor

We have read this thesis and recommend its acceptance:

Theodore H. Schmudde

Thomas L. Bell

Accepted for the Council:

L. Evans Roth

Vice Chancellor
Graduate Studies and Research

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AN ASSESSMENT OF HONG KONG'S POLITICAL FUTURE

A Thesis

Presented for the

Master of Science

Degree

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Edmond K. Lau

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This thesis is dedicated to my mother, Chan Chu.

ABSTRACT

This thesis was a study on Hong Kong's political future. Alternatives which could be available to the colony by 1997 were assessed. These options were: remaining a colony; being part of China; or becoming independent. Each of these scenarios was examined for its viability which was defined as the effectiveness with which Hong Kong could be administered on economic and political terms. The assessment of Hong Kong's possible futures was achieved through a detailed understanding of the contemporary economic and political environment of the colony. Over the past 25 years, Hong Kong had evolved to be a successful export economy. If the economic vitality of Hong Kong could be preserved under the colony and the independence scenarios, then both of these could be viable futures. Absorption by China would mean an end to Hong Kong's prosperity. From the perspective of Hong Kong as an entity, independence appeared to be the most desirable future because it could represent a thriving economy without being a colony.

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CHAPTER I

INTRODUCTION

I. GENERAL INTRODUCTION

Hong Kong, situated on the southeastern coast of China, is now one of the few colonies still under British possession. The Anglo-Chinese wars of the nineteenth century led to the establishment of the colony in a series of steps. Hong Kong Island was first ceded to the British in 1841, followed by the addition of Stonecutters Island and the southern portion of Kowloon Peninsula in 1860. The New Territories, comprising the area north of Kowloon Peninsula to the Shum Chun River and over 200 islands, was leased to the British in 1898 for a period of 99 years (Figure 1).[1]

The British Empire, which once covered an extremely extensive area, started to disintegrate after World War II. The granting of independence to India and Pakistan in 1947 marked the beginning of its dismantling. Many colonies in Southeast Asia and Africa soon realized the need to become independent. The relatively fast process towards self-rule for many colonies was not due as much to the planned, voluntary efforts of the British government, but to the unyielding demands of the colonies and to the declining status of Britain as a world power.

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[1] Hong Kong Annual Report, 1978, pp. 212-214.

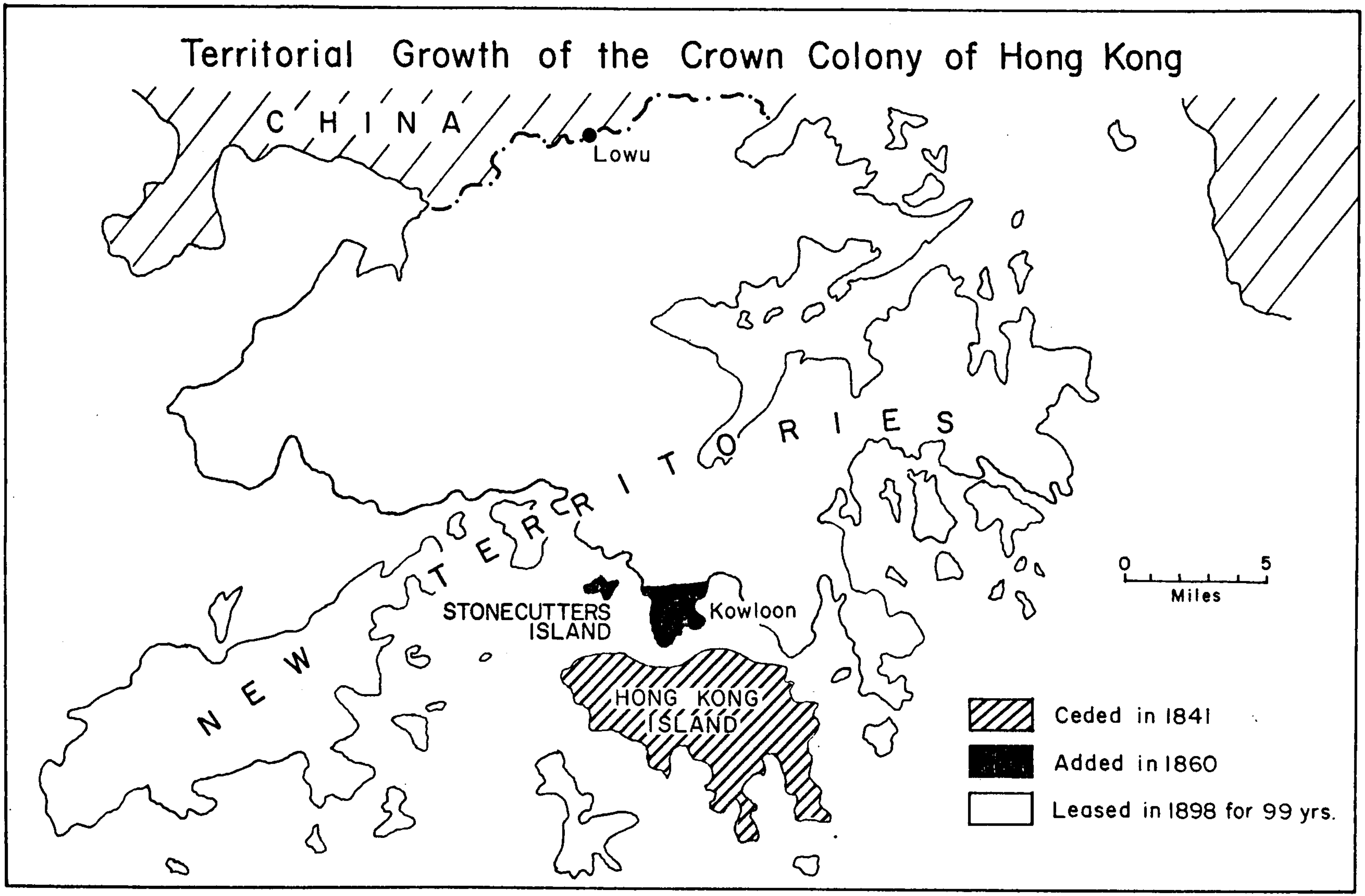

Figure 1. Territorial Growth of the Crown Colony of Hong Kong.

The end of the war saw Hong Kong in shambles and the British quickly reestablished control and began reconstruction. The colonial status was never seriously doubted by the people of Hong Kong or China. The wars between the communists and the nationalists had locked China into a severe state of massive internal confusion. The elimination of such disorders and the restoration of normal life to the masses were the most urgent tasks facing the communist government in 1949. This heavy emphasis on the remaking of internal order quietly placed external relationships in a position of secondary importance and urgency, and the question of Hong Kong's status was allowed to slip by. Had the Chinese authorities questioned the status of Hong Kong and insisted on the return of the colony to Chinese rule, it is doubtful that the British would have refused or resisted. The British would not have stood much chance in holding back the Chinese demand unless they received ample help from their American ally. The United States, however, had secretly decided that no military support would be given to the British for the defense of Hong Kong in case of a communist attack.[2]

Hong Kong is thus a problem left over from history and this problem manifests itself today in the intriguing political future of the colony. The lease on the New Territories is approaching its end in June 1997 and no one is certain what the future holds for the 4.5 million people living in Hong Kong.

Even though the colony is part of China and almost all its inhabitants are Chinese, it has evolved into an unique entity which has developed

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[2]Daniel Tsang, "Home Truths From History," Far Eastern Economic Review, (July 14, 1978): 28.

along capitalistic lines. This is obviously the direct opposite of what China has been experiencing and experimenting with in the last three decades. Hong Kong is now one of the most thriving industrial cities in Southeast Asia and enjoys long-term trade ties with the United States, The EEC countries, Japan, China and a dozen other countries. In the first eight months of 1978, Hong Kong's trading volume exceed HK$700 billion (U.S. $15.2 billion).[3] China, on the other hand, is just beginning to establish trade relationships with the western world; and their trade figure for the first half of 1978 was estimated at US $9.5 billion.[4] On a per capita basis, Hong Kong has a figure of about US $3380 while that of China was slightly above US $10 billion.

Compared to the still largely traditional and rural setting present in China, Hong Kong is a very modernized and westernized society. Material comforts of life are definitely more abundant in the colony. For example, in 1974, there were 185 television sets per 1000 inhabitants in Hong Kong while the comparative figure for China was 0.6.[5] The Maoist emphasis on self-reliance has subjected the 900 million Chinese on the mainland to a lifestyle full of political doctrines and not much more than the very basic needs of life, i.e., food, clothing, and shelter.

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[3] Quarterly Economic Review of China, Hong Kong, North Korea (London, 4th Quarter, 1978), pp. 16-17.

[4] Ibid., p. 12.

[5] United Nations Statistical Yearbook (United Nations, 1977), p. 944.

Had Hong Kong been returned to China in 1949 or shortly afterwards, the absorption of the city into the political and economic mainstream of the country might not have presented too great a problem. The Hong Kong of 1979 is very much different from the Hong Kong of 1949 and its political future is a cause of concern for many living in the colony. The average citizen ponders over what kind of a life awaits him if China does take back the city, while the industrialists and businessmen wonder what it means to their assets and investments if there are changes in the political status of the colony.

II. STATEMENT OF PROBLEM

This thesis is a study on Hong Kong's political future. Alternatives which might be available to the colony by 1997 will be assessed. These options are: remaining a colony; being part of China; or becoming independent. Each of these scenarios will be examined for its viability which is defined as the effectiveness with which Hong Kong can be administered on economic and political terms.

The purpose of this study is not to judge the possibilities of these alternatives because of the complexities of the issues involved and the inherent difficulties in asserting possibilities in future politics. It is, however, hoped that the most desirable future from the perspective of Hong Kong as an entity can be determined through some understanding of the economic and political situations in which Hong Kong might find itself under each of the three scenarios.

III. JUSTIFICATION FOR RESEARCH

A. Importance of Hong Kong

Hong Kong, despite its small area of approximately 400 square miles, holds certain political and economic importance to the rest of the world, with particular importance to Asia. Situated on the southeastern coast of China, the colony has been the place where information on the mainland is gathered by other countries. The western world, the Soviet Union, and last but not least, Taiwan, all rely on this arrangement. Peking's recent decision to open up to the western world is not likely to diminish Hong Kong's role as the watch-post of China. On the contrary, countries like the Soviet Union and Taiwan might even scale up their operations in Hong Kong to keep up with the latest developments.

In the last three decades, Hong Kong has emerged from an entrepot to an industrial city of extensive trade ties with many countries. Table 1 shows the growth of Hong Kong's trade.

TABLE 1

HONG KONG'S TOTAL TRADE (HK$ MILLION)
SELECTED YEARS

Year	Exports	Imports	Re-exports	Total
1950	3716	3788	*	7503
1960	2867	5864	1070	9801
1970	12347	17607	2892	32845
1977	35004	48701	9829	84849

*Included in exports.

Sources: Hong Kong Review of Overseas Trade in 1976, p. 4; Hong Kong Annual Report, 1978, p. 234.

In 1950, re-exports were estimated to value about 95 percent of total exports.[6] Since then, domestic products have been more important; and re-exports now account for about one-fifth of total export value. Throughout the years Hong Kong has experienced a trade deficit, but it had been more than made up by invisible earnings from tourism and the inflow of capital investment. Tables 2 and 3 list the major trading partners of the colony. The United States is still the most important buyer of Hong Kong's products, while the diminishing British market is partly taken up by the increasing trading activities with West Germany. In terms of imports, Japan, China and the United States are the major sources. Britain used to be the fourth largest supplier, but recently it has been overtaken by Taiwan and Singapore. It can be seen from these tables that Hong Kong holds certain economic value to many countries.

Besides being one of the most thriving industrial cities in Southeast Asia, Hong Kong is now one of the world's foremost shipping centers and second only to Tokyo in Asia. Hong Kong's location serves as an important link for both inter-Asia trade and between the Far East and Europe and America. In 1977, the port of Hong Kong handled over one million container units and became the world's fourth largest container operator after New York, Kobe and Rotterdam.[7] Hong Kong is also emerging as a financial center in Southeast Asia. There are over

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[6] Hong Kong Annual Report, 1950, p. 46.

[7] "Hong Kong, 78," Far Eastern Economic Review, (March 24, 1978): 73-74.

TABLE 2

HONG KONG'S DOMESTIC EXPORTS (HK$ MILLION)
BY COUNTRY, SELECTED YEARS

	1955		1965		1975		1977	
Country	Value	%	Value	%	Value	%	Value	%
U.S.A	88	4	1719	34	7334	32	13552	38
Britain	251	10	861	17	2778	12	3035	9
W. Germany	34	1	371	7	2860	13	3669	11
Japan	115	5	133	3	956	4	1386	4
Australia	53	2	134	3	1034	5	1247	4
Canada	29	1	135	3	775	3	1171	3
Singapore	*	*	143	3	624	3	904	3

*Not Available

Sources: Hong Kong Statistics, 1947-67, pp. 99-103; Hong Kong Annual Report, 1978, p. 234.

TABLE 3

HONG KONG'S IMPORTS (HK$ MILLION)
BY COUNTRY, SELECTED YEARS

	1955		1965		1975		1977	
Country	Value	%	Value	%	Value	%	Value	%
Japan	526	14	1551	17	6991	21	11547	24
China	898	24	2322	26	6805	20	8082	17
U.S.A.	325	9	994	11	3961	12	6093	13
Taiwan	40	1	154	2	1943	6	3254	7
Singapore	*	*	238	3	1921	6	2192	5
Britain	441	12	962	11	1715	5	1682	4
W. Germany	128	3	276	3	1034	3	1463	3

*Not Available.

Sources: Hong Kong Statistics, 1947-67, pp. 99-103; Hong Kong Annual Report, 1978, pp. 234.

100 foreign bank offices in the colony[8] and the Hong Kong and Shanghai Banking Corporation has secured a deal to acquire control of the 12th largest bank in the United States thereby putting itself in the top 20 banking corporations in the world.[9]

B. Choice of Alternatives.

The first alternative, which is remaining a colony, is rather obvious; Hong Kong has been a colony since 1841. The maintenance of the status quo beyond 1997 is looked upon by some as the most likely outcome because of the undisturbing nature of this alternative future. It is generally assumed that if Hong Kong can still play its role in pleasing its dual masters, then neither Britain nor China is willing to rock the boat.

The second alternative future is to become part of China. China has always maintained that Hong Kong is Chinese territory, and had always had great influence over the colony. One of the most dramatic examples of this influence is the 1967 riots in Hong Kong. The ordeal started with a labor dispute which quickly led to massive, violent demonstrations against the British government and climaxed with a border skirmish which cost the lives of five Hong Kong policemen. All such activities were

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[8] Ibid, p. 44.

[9] "Hong Kong Banks Move West," Far Eastern Economic Review, (April 14, 1978): 62-64.

reportedly engineered from the mainland which brought further pressures on the colony by holding down water and food supplies.[10]

The independence scenario represents the most dramatic of the three alternatives. However incomprehensive it may appear to be, given the pervasive dominance and influences of China, it always remains as a possibility and is treated as such in this thesis. An independent Hong Kong may mean a better environment for economic growth, thereby increasing Hong Kong's economic value to its trading partners. The future pattern of world powers seems to reflect China's importance; and an independent Hong Kong which is willing to serve as a watch-post may bear some significance to the United States and the Soviet Union.

IV. METHOD OF STUDY

The assessment of Hong Kong's possible future cannot be satisfactorily achieved without a thorough understanding of the economic environment and political setting the colony finds itself in today. An investigation of the contemporary geography of Hong Kong must therefore precede the evaluation of future alternatives. Such a method should provide a firm and reasonable basis to explore the future. The writer realizes that there are certain social problems embedded in each of the scenarios,

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[10] For more information on the 1967 riots, see "Start of a Long, Hot Summer," The Economist, (May 20, 1967): 780; "Mao Tries It On," The Economist, (May 20, 1967): 767-68; "East Is Ketchup Red," The Economist, (May 27, 1967): 899-900; "How-Why Failure," The Economist, (July 8, 1967): 105; "Real Threat," The Economist, (July 15, 1967): 206; "Thin Anti-red Line," The Economist, (September 2, 1967): 781-82; A.S.B. Olive, "China and Hong Kong," The World Today, (June 1967), p. 223.

but they are massive and difficult to delineate or measure. A future study aiming to comprehensively address this aspect will indeed be a challenge.

V. REVIEW OF LITERATURE

To date, only one other study has been found which specifically explores the political future of Hong Kong.[11] The two articles which made up this work came to the conclusion that the status quo would likely to be maintained after 1997. The colony has been an extremely important source of China's foreign reserves and the increased investment and trading efforts of the Chinese are seen as signed that the mainland urgently needs more foreign currencies to finance its own development strategies. The absorption of the colony could also be seen as a threat to the soveriegnty of the nations in Southeast Asia, thereby casting doubts on Hong Kong's role as an entrepot center for Peking's financial operations in this part of the world. Hong Kong is also of strategic significance for China in case of a Sino-Soviet war. If Hong Kong remains attached to Britain after 1997 a Soviet blocade of Hong Kong may be regarded as a challenge to Britain and NATO.

The lack of work done on Hong Kong's future is rather surprising. Perhaps the question of Hong Kong is assumed to be insignificant when China is still being congronted with the Taiwan issue. This thesis hopes to partially fill in the vacuum by exploring the possible angles not being probed in the above mentioned study.

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[11]"Hong Kong-Circa 1997," Far Eastern Economic Review, (December 10, 1976): 19-26.

CHAPTER II

ECONOMIC ENVIRONMENT OF HONG KONG

I. EXTERNAL RELATIONSHIPS

A. Trading Partners and Activities

The colony was establiahed to allow the British a place to trade and live in freedom. Since then, Hong Kong had flourished as a transhipment center with Britain and China as the principal trading partners. Such entrepot activities, though suffering fluctuations from time to time, became the means through which the colony maintained its livelihood until the 1950's. In 1951, the United States enforced a complete embargo on the exports of strategic goods to China, Hong Kong and Macao in retaliation for China's involvement in the Korean War.[1] The disrupted economy and serious unemployment facing Hong Kong as a result of the embargo finally convinced local entrepreneur to depend less heavily on entrepot trade. The transformation of Hong Kong's economy from heavily dependent on entrepot activities to more emphasis on the export of locally manufactured light industrial goods was rather rapid. The share of Hong Kong products in total exports was estimated to be five percent in 1950, this figure rose to 29 percent in 1955 and 70 percent in 1960.[2]

Exports. Table 2 shows the major markets for Hong Kong's domestic exports. Domestic exports have been growing both in the share of total

[1] Hong Kong Annual Report, 1950, p. 34.

[2] Hong Kong Annual Report, 1950, p. 46; Hong Kong Annual Report, 1955, p. 50; Hong Kong Annual Report, 1960, pp. 74-76.

exports and in the actual dollar value. Hong Kong was still heavily involved in the entrepot business in 1955 and domestic exports were rather limited. Since then rapid industrial growth made domestic exports more and more important and a certain pattern of trading partners has emerged. From 1965 onwards, the United States, Britain and West Germany have been destinations for over half of the total value of all domestic exports. The United States is the most important buyer while West Germany recently overtook Britain as the number two market.

Besides depending heavily on certian markets, Hong Kong is also relying heavily on certain exports commodities as illustrated by Table 4. The clothing industry alone accounts for over 40 percent by value of total exports. Of secondary importance are textiles, plastic toys and dolls, transistor radios, manufactures of metal, and watches and clocks.

TABLE 4

MAJOR EXPORT COMMODITIES AS PERCENTAGES BY VALUE
OF TOTAL EXPORTS OF HONG KONG,
SELECTED YEARS

Commodities	1972	1974	1976
Clothing	41	40	44
Textiles	11	13	9
Plastic toys and dolls	8	7	6
Transistor Radios	6	6	5
Manufactures of metal	3	3	3
Watches and clocks	1	2	4

Source: Percentages calculated from information in Hong Kong Review of Overseas Trade in 1976, pp. 4-7.

Imports. In terms of imports, China and Japan have long been Hong Kong's most important suppliers (See Table 3, p. 8). Britain used to hold a significant share of Hong Kong's imports, but was responsible only for a mere 3.5 percent in 1977. On the other hand, the United States seems to be solidifying its position as one of the top three suppliers. The major imported items and their relative importance are summarized in Table 5. Raw materials and semi-manufactures, which account for over 40 percent of the total value, come mainly from Japan, China, the United States and Taiwan. Japan, China and the United States also send in consumer goods. While China is the principal source of foodstuffs, Japan and the United States are the largest suppliers of capital goods.

TABLE 5

MAJOR IMPORTED ITEMS AS PERCENTAGES BY VALUE OF TOTAL IMPORT TRADE, SELECTED YEARS

Items	1972	1974	1976
Raw materials and Semi-manufactures	41	41	44
Consumer Goods	25	19	21
Foodstuffs	17	18	16
Capital Goods	13	12	13
Fuels	3	6	6

Source: Percentages calculated from information in Hong Kong Review of Overseas Trade in 1976, pp. 4-7.

Re-exports. Re-exports account for about 20 percent of total exports in recent years. Major commodities re-exported are machinery and transport equipment, textiles and clothing, watches and clocks, diamonds, and medicinal and pharmaceutical products. The main countries of origin are China, Japan and the United States while Japan, Singapore, Indonesia, the United States and Taiwan are the largest re-export markets. The relative importance of the countries of origin and major markets of Hong Kong's re-export trade in 1976 is illustrated in Table 6.

TABLE 6

MAJOR TRADING PARTNERS OF HONG KONG'S
RE-EXPORT TRADE IN 1976

Country of Origin	%	Destination	%
China	27	Japan	17
Japan	14	Singapore	11
U.S.A.	14	U.S.A.	10
Switzerland and		Taiwan	9
Liechtenstein	4	Indonesia	8
Brazil	4	Thailand	4
Taiwan	3	S. Korea	4
W. Germany	2	Macau	3

Source: Hong Kong Review of Overseas Trade in 1976, pp. 8 and 39.

B. Financial Center in Southeast Asia

The role of Hong Kong as a financial center is reflected by its well developed financial infrastructure. The extensive network of banking and financial institutions, the stock exchange, the commodities trading and the gold and silver exchange help to secure Hong Kong's importance. Such facilities have long been established and have contributed substantially to economic growth. Hong Kong's importance in Southeast Asia is especially recongized since the inception of the

Asiadollar market in 1969. In the first decade of the market's existence, Hong Kong has been performing better than Singapore where the market is located. From June 1976 to June 1977 over half of the syndicated loans to borrowers in the Far East were handled through Hong Kong while Singapore only accounted for about 10 percent.[3]

The Banking System. Hong Kong has a well developed banking system. At the end of 1977, there were 74 licensed banks with 803 banking offices. Also of importance was the presence of well over 100 representative offices of foreign banks.[4] Hong Kong thus has the third largest network of foreign bank offices in the world. As of February 1976, London was ahead with 224 such offices, followed by 170 in New York, 130 in Hong Kong and 100 in Singapore.[5]

Hong Kong does not have a central bank. Bank notes are issued by three commercial banks of British origin: The Hong Kong and Shanghai Banking Corporation, the Chartered Bank and the Mercantile Bank. The Hong Kong and Shanghai Bank is clearly the most important institution. It owns the Merchantile Bank and the Hang Seng Bank which is the largest local bank with no branches outside Hong Kong. As indicated earlier, this mammoth corporation made the world's top 20 banks after securing a deal to acquire control of the 12th largest bank in the United States.

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[3]William F. Beazer, The Commercial Future of Hong Kong, (New York: Praeger Publishers, 1978), p. 116.

[4]Hong Kong Annual Report, 1978, p. 35.

[5]Beazer, p. 97.

The Chinese government owns 13 banks in Hong Kong. The Bank of China heads the team and is the institution through which all Chinese international transactions pass. Until quite recently, these banks have been mainly financing department stores carrying only Chinese products; now they are attempting to diversify and broaden their fields of investment.[6] The overseas Chinese in Southeast Asia own a group of 12 banks in the colony and such offices are mostly branches of larger banks with headquarters elsewhere in Southeast Asia. Another group of 20 or so banks are those incorporated in Hong Kong. Some of these banks are owned by local families, and they are much more involved with local financial adventures. Thus, they stand in contrast to the foreign banks from Asia, Europe and the United States. These non-British foreign banks are most active in financing trading activities with their home countries and in generating off-shore business.[7]

The Stock Exchanges. At present, Hong Kong has four exchanges: Far East Exchange, Hong Kong Stock Exchange, Kam Ngan Stock Exchange and Kowloon Stock Exchange. Since the Securities Commission formed the Working Party on Unification in May 1977, these four have been in the process of uniting to form one exchange. It is expected that a united exchange should be in operation by January 1980. If the exchanges fail to cooperate to form a merger, then the government will step in to lay the foundations of a unified exchange.[8]

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[6] "Chinese Investments Grow and the Vibes are Good," Far Eastern Economic Review (October 6, 1978): 59-60.

[7] Beazer, pp. 97-98.

[8] "The Order to Unite," Far Eastern Review, (March 30, 1979): 38.

With a market capitalization in 1976 of US$ 11 billion, Hong Kong's market is relatively small compared to US$ 750 billion for New York, US$ 120 billion for Tokyo, US$ 79 billion for London and US$ 52 billion for Frankfort.[9] However, it is one of the world's most volatile exchanges, with promising outlooks fueled by China's progressive economic policy.[10] Indded the strength and resilience of Hong Kong's market can be seen in how it has recovered from the sudden boom and slump in the early 1970's.

In July 1972, The Hong Kong Hang Seng Index was at an ordinary level of slightly above 400. A few months later the index began a rapid ascent and by March 1973 it had reached an unprecedented high of over 1700. The decline was, however, as abrupt and fast. By June 1973, the index was only at the 600 mark, and the slump did not stop until the index hit a low of 170 in December 1974. Since then the market began a slow and arduous climb to about 500 in March 1979.[11]

Thia abnormal behavior of the market was reportedly fixed by some foreign financial groups which made off with approximately US$500 million.[12] The irony seems to lie in the fact that the Hong Kong government was aware of such illegal and unethical practices, but was unable to do anything because of the absence of regulatory organs and

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[9] Beazer, p. 108

[10] "Still One of the World's Most Volatile Bourses," Far Eastern Review (March 30, 1979): 37-40.

[11] Information accumulated from Far Eastern Economic Review, (June 25, 1973): 71; (March 28, 1975): 63; and (March 30, 1979): 88.

[12] "Letter to Governor," Far Eastern Economic Review (March 25, 1974): 7.

ordinances.[13] By the time the Securities Commission was set up and the Securities Ordinance was introduced in February 1974, it was already too late.

Commodities Trading. Hong Kong became the first city in Asia to offer an international marketplace for commodity futures when the Hong Kong Commodity Exchange began business on May 9, 1977. The exchange operates two markets. The first trades in American or America-type raw cotton of any origin and of middling grade, and 2.54 centimeter staple length. The second market trades in sugar.[14] This exchange is likely to fill in the gap in a physical sense between New York and London and should serve Asia well. A piece of evidence of the exchange's growing importance is that Hong Kong futures prices are now reported regularly by international wire services and leading cotton and sugar trade journals.[15]

Gold and Silver Exchange. The Chinese Gold and Silver Exchange Society has a long history of 68 years. However, its operation has, until quite recently, been rather limited in scope. Since the government abolished restrictions on the import and export of gold in 1974, Hong Kong has emerged as one of the world's largest gold markets. Bankers, gold dealers and financiers from all over the world have set up offices in Hong Kong to facilitate participation in the market.[16]

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[13] "New Hong Kong Controls," Far Eastern Economic Review, (January 8, 1973): 35.

[14] Hong Kong Annual Report, 1978, p. 36.

[15] "A Good Liftoff With Encouraging Progress." Far Eastern Economic Review, (March 24, 1978): 64.

[16] Hong Kong Annual Report, 1978, p. 37.

II. INTERNAL ELEMENTS

A. Role of Government

The role of the government in the economy, as summed up very clearly and succinctly in the 1978 Annual Report, is to "ensure a stable framework in which commerce and industry can function efficiently and effectively with the minimum interference."[17] The philosophy and spirit of free enterprise and free trade so openly and earnestly embraced by the administration has resulted in the labelling of Hong Kong as the living example of the policies advocated by John Stuart Mill.[18] It is true that on the macroeconomic level, monetary and fiscal policies are largely ignored and absent. Microeconomic intervention, however, does exist in areas where the market mechanism is judged to be inefficient or unable to achieve results deemed necessary for the continuation of a prosperous economy.

Macroeconomic Non-intervention. Hong Kong does not have a central bank. Bank notes are issued by three commercial banks against holdings of certificates of indebtedness backed by a government account, the Exchange Fund. Until 1971, virtually all of the reserves in the fund were held in sterling. Since then sterling holdings have been reduced in favor of other major currencies. By the end of 1977, sterling only accounted for about 15 percent of the reserves.[19]

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[17] Ibid., p. 12.

[18] Henry Smith, John Stuart Mill's Other Island, A Study of the Economic Development of Hong Kong, No. 6, (London: The Institute of Economic Affairs, Research Monographs), 1966.

[19] Hong Kong Annual Report, 1978, p. 32.

Strictly speaking, there is not a managed monetary system. The supply of money is determined by commercial banks which issue notes against 100 percent foriegn reserves. The availability of foreign reserves, then depends on the city's balance-of-payment position. Since Hong Kong has been able to achieve surpluses in most years, there has been a continuing net increase in the money supply. In June, 1978, the total value of currency in circulation plus demand, time and savings deposits was HK$66,297 million (US$14,350 million), almost doubling the 1974 figure of HK$34,207 million (US$6,727 million).[20]

With monetary management left to the forces of the market mechanism, the administration also makes no attempt to affect the economy through aggregate fiscal policy. There are no deliberate shifts in taxes and the government expenditure. The standard tax rate of 15 percent has been in effect since 1966 and its applies to property, business profits, interest and salaries taxes.[21] The general structure of government expenditure, like that of government revenue, has remained proportionally unchanged for years. The revenue and expenditure of the Hong Kong government are illustrated in Tables 7 and 8. Deficit spending, as can be seen from the tables, is not any part of the administration's policy. In fact, Hong Kong has experienced deficits in only four years since World War II and they were unplanned. On the contrary, the many examples of rather substantial surpluses are largely planned. This may well be the only exception to the absence of macroeconomic management. The

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[20] Hong Kong Monthly Digest of Statistics, (June, 1978): 36.

[21] Hong Kong Annual Report, 1978, p. 32.

TABLE 7

REVENUE OF THE HONG KONG GOVERNMENT
(HK$ MILLION) 1974-1977

Year	Direct Taxes Value	%	Indirect Taxes Value	%	Other Value	%	Total
1974-5	2186	37	1402	24	2287	39	5785
1975-6	2299	35	1814	28	2407	37	6520
1976-7	2784	37	2245	30	2465	33	7494
1977-8	3467	34	2724	27	4042	40	10233

Source: Hong Kong Monthly Digest of Statistics, Hong Kong, June 1978, p. 41.

TABLE 8

EXPENDITURE OF THE HONG KONG GOVERNMENT
(HK$ MILLION) 1974-77

Year	Economic Services Value	%	Social Services Value	%	General Services Value	%	Others Value	%	Total
1974-5	866	14	3499	56	1732	28	159	3	6255
1975-6	696	12	3358	56	1793	30	185	3	6032
1976-7	787	12	3541	54	2026	31	236	4	6591
1977-8	1470	16	4006	45	3241	36	280	3	8997

Source: Hong Kong Monthly Digest of Statistics, Hong Kong, June 1978, p. 41.

surplus has always been invested abroad to act as a restraint on economic expansion and for contingencies.[22]

Microeconomic Intervention. Although the Hong Kong Government does not attempt to practice macromanagement on the economy, it does exert influence on areas where the market forces are judged inappropriate or incapable of achieving satisfactory results. The most noticeable examples of intervention are the land policy, public housing and public utilities.

All land in Hong Kong is owned by the government which sells or leases the land on specific terms. In urban areas of Hong Kong and Kowloon, the lease is for 75 years and usually renewable for another 75 years at reassessed crown rent. Leases for land in the New Territories terminate three days before the expiration of the lease from China in 1997. Land in urban areas is sold by public auction; and land sales have yielded substantial revenue. For example, land sales grossed HK$346 million (US$75 million) in 1975-76, HK$557 million (US$121 million) in 1976-77, and an estimated HK$736 million (US$ 159 million) in 1977-78.[23] Besides owning all the land, the government also exercises land use planning so as to ensure that the limited land resources can most effectively meet competing needs of various uses.

Public housing in Hong Kong started in 1954 after a fire swept through a squatter area in Kowloon leaving 50,000 people homeless. Since then the government has embarked on an ambitious effort to provide public accomodations. Today, more than two million people or 46 percent of the population, live in subsidized housing. Spectacular as such figures may seem, the government has spent on housing only 5.3 percent of the total expenditure since 1970. Compared with percentages

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[22] Ibid, p. 29.

[23] Ibid, p. 244.

such as 10.2, 12.3 and 19.7 for law and order, transport and roads, and education respectively, the money spent on housing is not really impressive.[24] Still the government is committed to provide accommodations for a further 1.5 million people in the next 10 years, and expects to use an additional HK$4000 million (US$866 million) for public housing.[25]

In the area of public utilities, the administration's concern is on water supplies and trasnportation infrastructure. The government builds and maintains reserviors, and also runs a desalting plant which can convert 182,000 cubic meters of seawater a day. Since existing facilities can only satisfy about 75 percent of consumption, Hong Kong buys over 100 million cubic meters of water a year from Kwantung Province, China. Also, the government is building an extremely large reservoir in the New Territories to help to alleviate the water supply problem.[26]

One of the priorities of the administration's responsibilities is to provide an efficient transportation infrastructure. Substantial sums of money have been spend over the years, usually amounting to about 10 percent of the total expenditure. The result is an outstanding network of roads, especially by Asian standards. The government also owns part of the public transportation system, namely the Kowloon-Canton Railway and the under construction Mass Transit Railway. The existing railway extends from the Southern tip from Kowloon Penisula, through

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[24] Beazer, p. 30.

[25] Hong Kong Annual Report, 1978, pp. 89-90.

[26] Ibid., p. 145.

the New Territories, to the international boundary at Lo Wu. Daily ridership totaled 37,000, 34,000, and 38,000 for 1975, 1976, and 1977 respectively.[27] The Mass Transit is a subway network. The 15.6 kilometers initial system, which connects the Central District on Hong Kong Island with Kwun Tong on the Peninsula, is due for completion in 1980 with a capacity of 60,000 passengers per hour in each direction.[28] An extension of 10.7 kilometers to Tsuen Wan is expected to be in operation by 1982.[29]

In summation, the government position is that intervention only occurs in response to pressing economic and social needs, thereby producing controls and regulations on a rather ad hoc basis. The latest example of this type of action concerns noise pollution measures. This regulation prohibits the operation on construction sites of any mechanical devices capable of emitting loud noises during evening and night hours and on Sundays and public holidays. The construction industry protested and claimed that a loss of at least 57 working days in a year could mean a loss of over four billion dollars. So far the airing of such grievances has met with disregard by the administration.[30]

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[27] Ibid., p. 226.

[28] Industrial Investment, Hong Kong 1977, p. 30.

[29] Hong Kong Annual Report, 1978, p. 163.

[30] Ming Pao Daily News (in Chinese), May 20, 1978, p. 8.

B. Degree and Ability of Self-Sustenance

In 1977, only 10.6 percent of Hong Kong's total land area or 112 square kilometers (27.664 acres) was devoted to farming.[31] This represents a rather substantial reduction from the 1961 figure of 137 square kilometers (33,941 acres).[32] The loss of farmland can be attributed to the increasing pressures of urban and industrial development and to the growing residential needs of rural communities. Agricultural production from such small area cannot satisfy the demands of 4.5 million people; and large quantities of foodstuffs have to be imported. In fact Hong Kong has always relied on outside sources for food supplies since domestic production has always been limited.

Table 9 compares local production with foreign supply of important food items in 1977. Production of rice has fallen to a record low of 1400 tons from a level of over 30,000 in the 1950's.[33] Rice land has dropped from 9,450 hectares in 1954 to 330 hectares in 1977. Rice continues to be displaced by intensive vegetable growing which usually yields a much higher return on investment. Land area under vegetables has increased from 910 hectares in 1954 to 4,160 hectares in 1977.[34] Poultry raising seems to be the only significant type of livestock

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[31] Hong Kong Annual Report, 1978, p. 51.

[32] Long-Term Economic and Agricultural Commodity Projections for Hong Kong, 1970, 1975, and 1980, Economic Research Centre-Chinese University of Hong Kong in cooperation with the U.S. Department of Agriculture, 1969, p. 43.

[33] Ibid., p. 123.

[34] Hong Kong Annual Report, 1978, p. 52.

production, while pigs and cattle rearing meet rather low percentages of total consumption. Marine fish forms the most important domestically produced food supply.

TABLE 9

HONG KONG'S DOMESTIC AND FOREIGN SUPPLY OF IMPORTANT FOOD ITEMS IN 1977

Item	Unit	Domestic (D)	Imported	Total (T)	D/T%
Rice	ton	1,400	340,924	342,324	4
Vegetables	ton	194,000	314,977	508,977	38
Cattle	head	1,900	203,031	204,931	9
Pigs	1,000 Head	403	2,857	3,260	12
Chicken	ton	27,100	14,354	41,454	65
Eggs	1000	165,600	1,043,980	1,209,580	14
Marine Water Fish	ton	118,200	8,321	126,521	93
Fresh Water Fish	ton	4,180	29,833	34,013	12

Source: Hong Kong Annual Report, 1978, pp. 252-53.

The major foreign source of foodstuffs has been China which ships in about 50 percent by value of all imported food items. Rice, vegetables and fruits, cattle, pigs, chicken, and fresh water fish form the main bulk of foodstuffs from the mainland. Secondary sources include the United States, Thailand, Japan, Australia, and Taiwan. The relative importance of these sources is shown in Table 10. It would seem apparent that no other country even comes close to challenging China's position. The United States, a distance second, supplies mainly fruits and vegetables, poultry, and canned or processed food.

TABLE 10

HONG KONG'S SOURCES OF IMPORTED FOODSTUFFS
(HK$ MILLION), SELECTED YEARS

Country	1972 Value	1972 %	1974 Value	1974 %	1976 Value	1976 %
China	1863	49	3100	49	3352	48
U.S.A.	364	10	672	11	798	12
Thailand	363	10	583	10	477	7
Japan	199	5	329	5	359	5
Australia	149	4	230	4	357	5
Taiwan	107	3	131	2	189	3

Source: Hong Kong Review of Overseas Trade in 1976, p. 36.

The possibility of Hong Kong being totally self-sufficient in food supply is probably nil. The degree of self-sufficiency, which is defined as the percentage by value of total food consumption supplied by domestic sources, was 19.7 in 1959, and 14.7 in 1964.[35] The index for 1977, calculated from information obtained in the Annual Report and the Monthly Digest of Statistics, was 19.2.

Besides relying on China for significant quantities of food supply, Hong Kong also buys from the mainland an equivalence of one-third of its water consumption. In 1977 total consumption was 387 million cubic meters, with 125 million cubic meters being piped from Kwantung Province, China. The maximum capacity of the existing 17 recervoirs is 306 million cubic meters. With the completion of the High Island Reservoir, another

[35] Long-Term Projection, p. 42.

273 million cubic meters will be added to the maximum storage capacity. This increased capacity, plus the desalting plant with an annual capacity of 66 million cubic meters, should strengthen the possibility of self-sufficiency in water supply.[36]

[36] Hong Kong Annual Report, 1978, p. 145; and Hong Kong Monthly Digest of Statistics, June 1978, p. 56.

CHAPTER III

HONG KONG'S CONTEMPORARY POLITICAL SETTING

I. EXTERNAL TIES

A. British Perspective

Contacts between China and Britain dated back to the 1600's with the founding of the East India Company, but not until the end of the 18th Century were the British able to dominate the foreign trade at Canton. The Company's monopoly, however, was abolished by an act of Parliament in 1833, and British commercial interests were placed under a Superintendent of Trade. To make good the loss of the monopoly the company joined the opium trade which the Chinese had made illegal in 1799.

The massive incoming of opium was looked upon by China as a social and economic evil which sapped the energy of its people and drained its silver reserves. In order to stop the trade, Lin Tse-hsu was appointed special Commissioner in Canton in March 1839. Lin blocaded the foreign factories and required the surrender of all opium and the signing of a commitment not to import opium. After a siege of six weeks, the Superintendent of Trade, Captain Charles Elliot, authorized the surrender of 20,283 chests of the contraband. Upon release, the British community took refuge on board ship in Hong Kong Harbor.

Lord Palmerston, the British Foreign Secretary, reckoned that the time had come to settle the differences between the two countries. He demanded either a trade treaty to make China and Britain equals, or the cession of a small island where the British could live and trade without China's personal restrictions and controls. British forces were mobilized and arrived in June 1840, thus the First Opium War (1840-42) was started. Fighting and negotiations alternated until an agreement, which represented the ceding of Hong Kong Island to Britain, was reached in January 1841.

Neither China nor Britain, however, was happy with the agreement and the representatives were recalled in disgrace. Palmerston, dissatisfied with a barren island, replaced Elliot with Henry Pottinger. Fighting was renewed and by August 1842 British forces were approaching Nanking. Pottinger, ignoring instructions from the new Tory Foreign Secretary to drop the demand of an island, successfully secured an agreement of both a treaty and the island of Hong Kong. The Treaty of Nanking, signed on August 29, 1842, also required five Chinese ports to be opened for trade.

The Opium War marked the beginning of a series of concessions to different foreign countries. Eventually, Britain was able to acquire the concession of Kowloon Peninsula as far as Boundary Street and the Stonecutters Island in 1860. Furthermore the New Territories, comprising the area north of Kowloon up to the Shum Chun River, and 235 islands were leased for 99 years in 1898. The establishment of the colony was then completed.[1]

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[1]The paragraphs above are mainly based on Hong Kong Annual Report, 1978, pp. 212-14.

While most of Britain's former colinies had achieved independence since World War II, Hong Kong is still a colony. The continuation of colonial rule requires some examination. A colony is established and maintained for either or both strategic and economic reasons. Hong Kong has seen its days as a naval base for Britain's operations in China and the Far East. Since the disintegration of the British empire, the colony has become the only representation of British presence in the Far East. Such an afar and isolated colony, with very limited military forces, can at best hold a very small strategic value. At present the British garrison in Hong Kong comprises five naval patrol craft, four infantry battalions, an Gurkha engineering squadron and a squadron of helicopters. These troops, together with locally-enlisted Chinese soldiers, number less than 8000. The primary function of this very small armed forces is the surveilance of border areas.[2]

The value of Hong Kong to London clearly lies in the economic advantages which Britain obtains. Until 1971 virtually all of the colony's reserves were held in sterling. As of 1972, Hong Kong's sterling assets of 900 million pounds accounted for 40 percent of Britain's total reserves.[3] This sum was made up of accumulated government budget surpluses, assets held by the Exchange Fund as backing for the currency, and the reserves owned by the commercial banks. Since then the sterling holdings had been reduced as a result of two forces. Hong Kong was unhappy with the weak sterling which caused the reserves to suffer net

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[2]Ibid., pp. 172-73.

[3]Beazer, p. 75.

losses despite various forms of guarantee. Perhaps a much stronger pressure came from London's partners in the European Economic Community who wanted to see the end of the sterling area.[4] The sterling area was a group of countries which agreed to pool their reserves in London and allowed free movement of money among the members. By June 1976 the proportion of Hong Kong's reserves held in sterling dropped to below 30 percent and amounted to about 150 million pounds.[5] Still the colony's balance in London is quite useful in propping up Britain's finances.

Also important but rather difficult to quantify is London's surplus on invisible transactions such as pensions, dividend remittances, plus commercial payments for shipping, insurance and other services sent from Hong Kong to Britain. Such annual surplus was estimated to be around 200 million pounds and could be higher.[6] Besides such direct gains from the colony, there are other indirect benefits. Airport landing rights in Hong Kong are controlled by London on the argument that Britain handles all of the colony's foriegn affairs. Airlines of other countries wishing to land in Hong Kong must negotiate with London. Usually permission is only granted if British Airways is given concessions from the applicant airlines. Hong Kong is a major air center with some 30 airlines operating more than 900 scheduled flights a week.[7] Land rights are, therefore, valuable and give British Airways good bargaining power.

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[4] Hong Know Research Project, Hong Kong: A Case to Answer, Spokesman Books, Britain, 1974, pp. 30-31.

[5] Norman Miners, The Government and Politics of Hong Kong, Oxford University Press, London, 1977, p. 12.

[6] Ibid., p. 8.

[7] Hong Kong Annual Report, 1978, p. 150.

The continuation of colonial rule may also reflect political considerations from London. It is generally believed that China does not want Hong Kong to become a self-governing political entity. Britain, therefore, takes no part to further constitutional and political development in the colony. The British government's position is summed up quite clearly by David Ennels when he said on behalf of the Secretary of State for Foreign and Commonwealth Affairs in 1974,

> "The circumstances of Hong Kong are special and make very difficult any constitutional progress on the path automatically followed by Dependent Territories. The situation is well understood locally."[8]

B. Chinese Perspective

Hong Kong, as well as the entire Kwantung area, was first brought under Chinese control during the Han Dynasty in 111 B.C. This coastal region, however, remained a frontier zone for many centuries. Substantial migration into this area did not happen until the Sung Dynasty (960-1179) and the oldest villages in the New Territories have a history dating back to the 11th century.[9]

Even though Hong Kong is a part of China, this small area with hardly any natural resources had not borne any significance with the Chinese government until it was ceded to Britain in 1841. Even though the Manchu official who negotiated the treaty was ordered to Peking in chains, it was probably because of the humiliations brought by the defeat of the Chinese army rather than the ceding of a tiny, barren island.

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[8] Case to Answer, p. 45.

[9] Hong Kong Annual Report, 1978, p. 212.

With the development of Hong Kong into a commercial center, its economic value to China increased. The roles of entrepot and market for China's raw materials, consumer goods and foodstuffs have benefited China substantially. China also operates banks, department stores, and other investments in the colony. It is believed that Hong Kong generates aboud one-quarter to one-third of China's foreign exchange.

China has always maintained that Hong Kong and Macao are the results of unequal treaties imposed by the imperial powers. In a letter to the United Nation's Special Committee on Decolonization, the Chinese representative strongly objected the placing of Hong Kong and Macao on the list of "Colonial Territories." He stated that the United Nations had no right to discuss these questions which would be dealt with by China when the conditions were ripe.[10] This clearly indicates that China intends to settle these issues whenever and however it sees fit and it may be assumed that independence for these two cities is not what China would wholeheartedly support.

When conditions would be ripe is difficult to say, but it appears that it would not be in the foreseeable future. Since China embarked on its ambitious development policies a few years ago, the contributions of Hong Kong have keenly been felt. During a visit to Hong Kong in late 1978, the Chinese Foreign Trade Minister openly remarked on the major role of Hong Kong in China's development programs and then extended an invitation to Governor Murray Maclehose to visit China in his official

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[10] Case to Answer, pp. 48-9.

capacity in March 1979. This visit, officially the first by a Hong Kong governor since 1949, is seen as a sign of improving relations and the recognition of the Hong Kong government by China.[11]

Just as China and Hong Kong seem to be developing some kind of understanding, the problem of Chinese emigrants and refugees may soon sour the relationship. From January 1978 to June 1979, Hong Kong absorbed an estimated 250,000 emigrants and another 100,000 illegal emmigrants or refugees from China.[12] Even though the governor was assured by Chinese authorities during his visit in March 1979 that the exodus would be controlled, it appeared that in April and May more refugees were caught and repatriated than ever before. Added on this problem are the Vietnamese refugees who totaled over 23,000 by May 13, 1979. Hong Kong does not have the resources to deal with this kind of increase in the population and the influx of Chinese and Vietnamese is arousing much anxiety in both the adminstration and the local population.[13]

II. INTERNAL ORGANIZATION

A. Structure of Government

Hong Kong is administered by a government headed by the governor. The governor is appointed by the Queen and acts as her representative in the daily operations of the colony. His authority is set out by the

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[11] "Another Step Up the Ladder," Far Eastern Economic Review (March 16, 1979): 36-37.

[12] "The Hong Kong-Peking Minuet," Far East Economic Review (May 25, 1979): 18.

[13] "III Winds Over Fragrant Harbour," Far Eastern Economic Review (May 25, 1979): 14-16.

Letters Patent and the Royal Instructions which describe the power structure and composition of the colonial government. In effect the governor holds all final adminstrative powers, and is assisted by two advisory bodies, the Executive and the Legislative Councils. Even though a governor is appointed for a term of five years, his office may be extended for reasons such as popularity or difficulty in finding a suitable replacement. Murray Maclehose, the current and the fourth governor since the war, has been in office since 1972.

The function of the Executive Council is to advise the governor on all matters of policy except in cases of extreme urgency. The Council consists of five ex-officio and a number of appointed members. The ex-officios are permanent members and made up by the Commander British Forces, the Chief Secretary, the Financial Secretary, the Attorney General, and the Secretary for Home Affairs. As of 1978, there were nine appointed members, one official and eight unofficial. Such members are usually appointed by the Queen or the Secretary of State upon recommodations from the governor for a term of one or two years. The council usually meets once a week and is presided over by the governor though he is not a member. Matters to be put before the council are decided by the governor who may deny requests for discussion of matters not on the agenda. Should he decide to act against the advice of the majority of the Council, he is required to report his reasons to the Secretary of State. Thus the governor-in-council is the final authority for making regulations, rules and orders, and he also considers appeals and petitions.

The second major body in the administration is the Legislative Council which has a maximum potential membership of 50, half official and half unofficial. The Governor, the Chief Secretary, the Financial Secretary, the Attorney General and the Secretary for Home Affairs are ex-officio members. All other members are appointed by the Queen or the Secretary of State. As of 1978, there were 21 officials all of whom were directors of departments and 24 unofficials. The primary functions of the Council are to endorse and ratify legislation originating from the Executive Council and to control government expenditure. When the number of the officials is equal to the number of the unofficials, the administration can always command a majority of the Council because the officials must vote as directed by the Governor who also casts the deciding vote in case of a tie.[14]

It may appear that the Governor of Hong Kong can be a dictator since the government structure is so designed to enpower him with final administrative and legislative authority. However, if a Governor behaves in such a way he will soon find his office flooded with directives from London or he may even be dismissed. Also, the unofficials of the Council can exert considerable influence on the Governor. The unofficials are chosen because they are leading members of the community or professional groups and their advice, especially when it is unanimous, is not lightly dismissed. Since 1966, the unofficials have a majority of the Executive Council and their authority is derived from a long established convention that the Governor accepts the majority view of the council. The ideas of

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[14]The above discussion is largely based on Hong Kong Annual Report, 1978, pp. 217-19.

the unofficials are also respected by their official counterparts. In 1969, for example, the Attorney General dropped the proposal for a bill to legalize abortion when faced with rejection by the unofficial members.[15] The decision power on legislation held by the unofficials in the Executive Council is considerably increased when some of them serve on both Councils simultaneously as they can usually gauge the reactions of the rest of the unofficials in the Legislative Council. In 1978 there were four such members.[16] The administration also respects the decisions of the unofficials in the Legislative Council and always avoids a power showdown. There had only been two cases since the war when the full potential majority was used to overcome the unanimous opposition of the unofficials. One was in 1947 and the other occurred in 1953. In 1973 when the unofficials threatened to all vote against the proposal to renew the crown leases at market rents the government backed down and suffered considerable revenue loss.[17]

As a colony, Hong Kong enjoys a certain autonomy in its internal affairs even though constitutionally it is always subordinate to the British Government. The crown has the right to disallow ordinances passed by the Legislative Council and this was last done in 1931. London can also exert considerable control by refusing Hong Kong's requests for permission to do certain things. But in recent years this type of negative power has given way to the colony's insistence and desires to

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[15] Miners, p. 71.

[16] Hong Kong Annual Report, 1978, pp. 269-71.

[17] Miners, pp. 103-4.

look after its own interests. Such was the case when Hong Kong repeatedly requested in the past few years to reduce its sterling reserves while retaining the guarantee of their value. The sterling proportion was first lowered from 99 to 89 percent and when the guarantee was ended in 1974, Hong Kong chose to diversify its reserves.

B. Degree of Localization of High Level Administrative Positions

The administration of Hong Kong is staffed by the civil service which by 1978 had a work force of 108,400. Of these government employees, 2,600 or 2.39 percent were recruited overseas.[18] The expatriates are now paid the same salaries as local recruits, but this was not the case before 1971.

When the British were tyring to rebuild the government machinery in Hong Kong after World War II, there was a great need for executive and administrative personnel. As the colony could not satisfactorily staff these positions with local recruits, it had to rely on the employment of expatriates. According to orders from the Colonial Office in 1946, officers from overseas were to be paid salaries sufficient enough to attract and retain them in the colony. This meant that expatraites were awarded with very high salaries compared to the prevalent local pay scale. Such was the practice until 1959. Since then expatriation pay was abolished and overseas officers on first appointment were given two or three increments on the pay scale compared to local officiers.[19]

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[18] Hong Kong Annual Report, 1978, p. 220.

[19] Survey of Government Wages and Salaries, 1963, p. 42.

The number of expatriates in 1952 was 1,063 and represented 4.44 percent of the entire civil services.[20] This percentage has been declining slowly over the years as localization progresses.

The pace of localization, however, is different with different classes of high level government employment. In 1976 the proportion of Chinese officers in the executive grade was about 90 percent while that of the administrative grade was about 40 percent. In the directorate class, which includes department heads and posts of similar status, Chinese only accounted for less than one-third.[21] A more distinct contrast can be seen in the composition of the official members of the Executive and the Legislative Councils. In the 1978 Executive Council only one out of the six officials was Chinese, and for the Legislative Council it was four out of 22.[22]

It is rather obvious that the expatriates still control the higher level of decision-making in the colony. To explain the absence of Chinese officers at this level is not easy. This may be due to deliberate political considerations of both the London and the Hong Kong governments. It appears that Britain will be retaining its control of Hong Kong for many years to come, thereby a group of expatriates is needed. Also it is generally assumed that China may not tolerate Hong Kong's existence if all high-level policy-making positions are held by local Chinese. An equally dubious, but seemingly more unintelligent explanation was offered by the Hong Kong Government itself. According

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[20] Miners, p. 89.

[21] Miners, p. 91.

[22] Hong Kong Annual Report, 1978, pp. 269-70.

to the adminstration, the many local applicants for adminstrative positions have the academic qualifications but are handicapped by limited outlook and a lack of "character" and intelligence needed in an adminstrator.[23]

[23]Miners, p. 92

CHAPTER IV

ASSESSMENT OF THE ALTERNATIVES

This chapter is concerned with the political and economic environments in which Hong Kong might find itself under each of the three alternative futures. In many instances, assertive or even speculative statements are made, but an effort has been expended to have such statements qualified by referring to the facts presented in the preceding chapters. Through the assessment of the alternatives, the viability of each of the scenarios may be able to be understood.

I. COLONY SCENARIO

The maintenance of the status quo beyond 1997 probably means that the economic and political situations which will face Hong Kong are similar to those prevailing today. The vitality of Hong Kong will hinge on its ability to maintain economic growth through export trade. In the past 25 years, Hong Kong has transformed itself from an entrepot to a very successful export economy. This spectacular development evolves as a result of a rather special but steady combination of the roles of government and entrepreneurs. The adminstration believes that the market mechanism is the best allocator of resources and has therefore refrained from unnecessary intervention. The entrepreneurs, for their part, have proved to be diligent, responsive and resilient. This complementarity of roles has enhanced Hong Kong's ability to capture export markets because its products are competitive in both price and quality. As long as such conditions are present, export trade in the future can be assumed to by prosperous.

There is, however, an exogenous factor which can cause slowdowns in the growth of the export trade. The increasing use of quotas and restrictions by the export markets, especially the United States, can have serious results on Hong Kong. The United States had, for the past two decades, been the most important market accounting for about 40 percent by value of Hong Kong's exports. The relative importance of the United States might decline, but the change can be expected to be neither sudden nor extensive. The need to diversify trading partners is beginning to be understood; however, the opening of new markets is easier said than done. Certain countries, such as Mexico and Nigeria, might be promising perspective buyers of products like clothing and light industrial goods, but these nations must first progress on their development programs before they can acquire strong buying power. The position of the United States as an export market is paralleled by that of clothing as an export commodity. Over the years, clothing has accounted for over 40 percent by value of all exports. This percentage may drop when other commodities, especially those of electronic gadgetry, gain more prominence. Again clothing will probably still be the most important export item because of the comparative advantage the industry has achieved in the international market.

The general structure of the colonial government after 1997 will be the same as that of 1979 or that of the nineteenth century. Even though there might be an increasing presence of Chinese in the Executive and the Legislative Councils, the decision power on practically all important matters will remain in the hands of the Governor and a group of elite expatriates. Constitutional reforms are unheard of in the history of the colony, and there is no reason to assume under this scenario that after 1997 such reforms suddenly become prevalent. Indeed Britain fully understands the delicate and perplexing relationship between China and the colony, and has not initiated or allowed any constitutional progress on the path to self-government for the colony.

The extension of the colonial status may represent a convenience for Britain and China to easily smooth over the problem. Both Britain and China may stand to suffer certain losses if there is any change in the status quo. Even though Britain no longer enjoys the advantage of sterling reserves, it still maintains vested commercial interests in the colony. On the Chinese side, Hong Kong has been a very significant generator of foreign exchange. The contributions and role of Hong Kong in the modernization programs have already been openly recognized by the Chinese government. Leaving the status quo undisturbed, therefore would assure both Britain and China of the advantages they have been receiving from the colony. The Hong Kong government, being subservient to Britain, of course will just follow London's orders. Other countries which may have some interest in China will be indirectly benefited by this arrangement because this tiny watch-post on the mainland will still be open and accessible.

II. CHINA SCENARIO

First of all, it must be pointed out that the author does not believe the lease on the New Territories weigh very much in China's considerations on the colony. China has always insisted that Hong Kong is Chinese territory and all the treaties signed by the Manchu officials are unequal because they were imposed upon by imperial forces to take advantage of China. Therefore, China sees no time limit in the settlement of Hong Kong's future. If China does take Hong Kong into its boundary, the entire colony will be absorbed.

It is assumed that there will be two options or methods open to China in the absorption of Hong Kong. The first will be forceful assimilation and the second some type of autonomy. At present China is undergoing tremendous efforts to modernize its economy, but the basic principles of government and its allegiance to communism still prevail. It is therefore logical to believe that the capitalistic nature of Hong Kong will still be very much different from a possibly modernized, but communist, China. Assimilation, then, may mean destruction of the entrepreneurship on which Hong Kong's prosperity is built. Massive exodus of businesses and investments will reduce Hong Kong to an ordinary 400 square miles of over-populated area and leaves quite a problem for the Chinese authorities.

To avoid the problems and undesirable results of assimilation, China might consider giving Hong Kong autonomy on economic and internal affairs while it becomes part of China. The contribution of Hong Kong to China's economy and its modernization programs is now recognized by the Chinese government. By allowing autonomy, China can still generate substantial foreign exchange and make use of the financial infrastructure possessed by Hong Kong in furthering trading activities with other countries. So far China has kept silent as to how the future of Hong Kong is to be settled; it has only maintained that this problem will be solved in an appropriate way. Autonomy may well be seen as an appropriate method in the absorption of Hong Kong, indeed this arrangement is exactly what the Chinese authorities recently proposed to offer Taiwan.

Autonomy will be advantageous to China only when the present vitality of Hong Kong is preserved. In order to achieve this, the local governing body must understand the forces leading to Hong Kong's success as an export economy. The leadership echelon, whether they are sent from China or chosen in Hong Kong, will perform a role rather similar to that of the present administration. Economic growth will still be possible as long as the government provides an environment which ensures and induces investments, and the entrepreneurs are convinced that they will receive the benefits for their efforts. Therefore, in many instances this arrangement resembles the present colonial status with the only differences being a change in name and master.

As an autonomy, Hong Kong will be under the political leadership and sovereignty of China. But because of the unique nature of its position with the rest of China, its political future is rather uncertain. A capitalistic city inside China's boundary may generate much envy and anxiety from the other parts of the country. Autonomy may be allowed as long as internal pressures are not great enough to justify the elimination of a well developed financial infrastructure which greatly facilitates China's dealings with foreign countries and a rather lucrative market for China's foodstuffs, consumer goods, and raw materials. Given the nature of the communist principles and the avowed displeasure with capitalism, autonomy may be eradicated in favor of unity of national feelings and political ideology.

III. INDEPENDENCE SCENARIO

Over the past 25 years, Hong Kong has evolved into an economic entity which has the ability to succeed in the commercial and the financial world. Among the developing nations, Hong Kong is the fourth leading country where multinationals are being established. Hong Kong-based companies have investments in the development world such as the United States and in the developing world such as Indonesia.[1] The emergence of this entity has set the 4.5 million Chinese in the colony apart from the 900 million Cbinese on the mainland. The population of Hong Kong, in spite of its ethnic origin and identity, has been exposed to a western way of life. The continuation of this way of life depends on the preservation of the economic structure under which Hong Kong has thrived. It has been argued that the extension of the status quo beyond 1997 could mean the maintenance of Hong Kong's economic viability, but this viability could also be achieved if Hong Kong is to become an independent state.

As a sovereign state, Hong Kong's economy will be based on the success of its export trade. This dependence on trading activities as a livelihood is now well understood, and it should be well understood by the independent government. Since Hong Kong's prosperity is founded and maintained under

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[1]Paul Streeten, "Multinational Revisited," Finance and Development, June 1979, Vol. 16, No. 2, pp. 39-42.

the premises of free enterprise, the newly formed government will have no reason to disturb the very effective combination of minimum government intervention and entrepreneurship. Failure to preserve this complementarity of roles could easily result in a disrupted economy.

The prosperity Hong Kong has enjoyed over the past two decades proves that Hong Kong has the ability to survive and succeed as an export economy. The only major handicap is its deficiency in domestic food sources. China has always been Hong Kong's principal supplier of foodstuffs, and has accounted for about half by value of the total imports. But if China shows any hesitation in the continuation of this trading relationship, Hong Kong should be able to find alternate sources. Rice can come from Thailand, Taiwan and the United States; fruits and vegetables can come from Taiwan, the United States, and Austraila; meat can come from New Zealand and Australia. Of course it will mean a certain amount of disruption since Hong Kong has long relied on well established supply lines from China, but the important point is that China's position can be replaced simply by intensifying buying activities from the presently secondary sources. A somewhat similar situation can be found in water supplies. The present dependence on China for about one-third of water consumption can be easily eliminated with the completion in a few years of the largest reservoir in Hong Kong and the capability of the seawater desalting plant.

The fact that Hong Kong is a totally different economic entity from China poses difficulties for the Chinese authorities in trying to decide a future for Hong Kong. The absorption of Hong Kong appears more of a liability while the extension of the colonial status may not be easy to justify. An independent Hong Kong, then, may seem to represent a compromised solution to China's dilemna. The independence of Hong Kong obviously means concessions from China and the survival of the new sovereign state, at least for the initial stage, would depend on its ability to serve a functional role in contributing to the benefits of China. A good working relationship between Hong Kong and China is almost solely based on rational judgments on the part of the Chinese. Other countries such as Britain and the United States are unlikely to stand strongly behind Hong Kong because the commercial and strategic interests they have in Hong Kong will probably be determined as not great enough to justify alienation of China.

The internal political environment of the new sovereign state might be a more imminent cause for concern. Hong Kong has never known any other form of government except that of a colony and the majority of the population shows no interest in politics either because of apathy or unknowledgeability. This absence of political awareness should not be too widespread after independence because the struggle for sovereignty will obviously demand the support of politically conscious massess. Of course it will take a very strong and skillful leadership to bring out the zealous crowds in the presently apathetic and politically stifled population, but a politically conscious and active population will also help to check the degeneration of the authoritative leader into a petty dictator. A popularly elected government means that the people can have the power to change the course of the state. For democracy to work best, the people must be educated as to what can be expected from the government.

For example, Hong Kong cannot be expected to turn immediately into a welfare state without putting a strain on both the government and the economy. It is not to say that a successful economy comes only with minimum government intervention. Singapore, a state which shares many common characteristics with Hong Kong, has a successful export economy with much more government involvement. Any changes as to the nature of the role of the government must come very slowly and steadily so as to avoid disastrous repercussions.

CHAPTER V

CONCLUSION

I. SUMMARY

This thesis is a study on Hong Kong's political future. Three alternatives, which are colony, China and independence, are judged to be possible futures after 1997. The economic and political situations which might be facing Hong Kong under each of these scenarios are assessed based on a detailed understanding of the contemporary political and economic environments.

Hong Kong's prosperity is founded on export trade; and the success of this export economy comes about with the least assistance or intervention from the government. The adminstration believes that, where appropriate, the forces of the market mechanism are the most efficient means for the allocation of Hong Kong's resources. So far this approach has proved to work satisfactorily, and the government has concentrated its efforts in providing an efficient transport infrastructure and certain public utilities such as housing and water supplies.

The thriving economy Hong Kong has enjoyed over the years seems to have masked several potential threats or limitations in the continuation of this prosperity. One is the heavy concentration on the United States as an export market and clothing as an export commodity. Increasing use of import quotas by the export markets, especially the United States, can have serious results on Hong Kong's economy. Diversification is needed and this situation is beginning to be understood locally. The government, however, prefers to leave the decisions to the entrepreneurs. New markets are being opened, but such efforts to diversify have not and probably will not lessen the concentration to a very great extent. The other potential deterrent to economic stability is Hong Kong's inability to supply its population with domestic sources of food supplies. Over half of the imported foodstuffs have always come from China. However, if China is reluctant to assume this role, other sources, especially in Southeast Asia, should readily be available to meet the demands of the Hong Kong population.

Hong Kong, even though it is practically autonomous in internal affairs, is after all a British colony. London reserves the power to override any legislation passed by the Hong Kong government. The fact that the British Parliament has for many decades not exercised this privilege means not so much the reluctance of the colonial master to exert its influence but rather the success of conventional wisdom which calls for the discussion with London on any controversial bills before they are acted upon in the colony.

Another characteristic of the Hong Kong government which is distinctively colonial in nature is that the highest decision powers rest in the hands of a group of expatriates. Furthermore, high level administrators are largely non-Chinese. The process of localization seems to be effective only in the level of executive officers.

The examination of the scenarios seems to suggest that both the colony and the independent alternatives can be viable futures for Hong Kong. The assumed viability of these two scenarios stems from the belief that Hong Kong will be able to keep up economic growth through export trade. A favorable political climate for investments in the post-1997 colony will depend on the commitments of both Britain and China to maintain the status quo. In the case of independence, the new sovereign state may provide an environment conducive to investments to promoting a good working relationship with China. Standing in contrast to the viability of these two alternatives is the unviability of the China scenario. The absorption of Hong Kong by China almost certainly means an end to the factors which have been responsible for Hong Kong's economic success.

II. DESIRABILITY OF ALTERNATIVES

Even though both the colony and the independence sceanrios may represent viable futures for Hong Kong, it is my belief that independence is the more desirable future. The extension of the colonial status will not solve the problem of an undecided and possibly unsteady political future. The notion of absorption by China which is haunting today's Hong Kong will not easily disappear no matter what kind of guarantee is given by the Chinese authorities. It is an open secret in the colony that those who have the means and are qualified to establish residency in foreign countries have already emigrated and found new homes in the United States, Canada and Britain. So far this uneasy feeling about the political future has not visibly affected investments in the colony, but it is difficult to say how the businessmen and the industrialists will act as 1997 draws closer and closer.

It is rather strange phenomenon that the people of Hong Kong have not shown any nationalistic sentiments and demanded their independence. For those who have emigrated and those who want to emigrate, their ultimate goal is a place to live and work and without the worry of an unknown future. This is exactly what independence will represent; the people of Hong Kong deciding on Hong Kong's future. With the colonial government which is designed to maintain the authority of the elite expatraites chosen by Britain and the apparently systematic discrimination displayed by this colonial government against local Chinese in high level administrative positions; self-determination may indeed only be possible under independence. History has shown that colonial rule, in whatever type or form, has eventually given way to sovereign states even though each of the colonies had a different background and perspective. Hong Kong should be no exception. The 1967 riots shows that the people of Hong Kong can be mobilized to express their wishes, though it was more of an outlet of anti-British feelings on a racial basis. With education and leadership, the citizens of Hong Kong can be mobilized to express their demands for self-determination.

Despite all the desirable features of independence as an alternative future for Hong Kong, its materialization ultimately depends on the willingness of China to allow independence. China has to, or must be convinced to, see that an independent Hong Kong would be serving the interests of China while solving its problem of deciding a future for Hong Kong. If China fails to make this rational decision, then Hong Kong will find it extremely difficult to survive independence.

III. IMPLICATIONS

This thesis is not a study of the possibilities of the three alternatives. Possibility is inherently difficult to define and calculate, and is left beyond the scope of this endeavor. Instead this study seeks to determine the most viable and desirable future for Hong Kong and it has demonstrated that the problem of Hong Kong would not be solved short of independence.

Independence may be achieved by force or by consent. In the case of Hong Kong, forceful revolution will be very unlikely because Hong Kong does not have the means to stage any military uprisings. The probability of a world power like the United States or the Soviet Union becoming interested in an open revolt in Hong Kong against China is very slim. Whatever economic and strategic values Hong Kong may represent would almost certainly not be great enough to justify the alienation of China.

If Hong Kong is to achieve independence, it will be with the consent of China and Britain. However, neither Britain nor China is going to initiate self-government in Hong Kong, sovereignty will have to be strongly demanded. For this demand to be met, certain conditions such as political leadership and mass support must be present. The leadership must be very skillful and determined. It will have to convince the people that independence is the only solution and then mobilize the presently apathetic population into zealous crowds. It must not bow to and disintegrate under pressures from China; on the contrary it will have to convince China that an independent Hong Kong will relieve a problem and still serve a functional role for the Chinese. Beneath all these activities there has to be massive support from the people of Hong Kong and the masses will have to be politically educated to fulfill such a role.

This type of mass education will have to be instigated under the colonial government which might be interested in maintaining the status quo. It may be rather difficult to carry the message to the people who in turn might not be easily convinced. All these point to a strong and skillful leadership which at present seems to be nonexistent. Exactly what is to be done is an intriguing political matter, but the emergence of a leadership which has the ability to cultivate nationalistic feelings in the people of Hong Kong will be the most vital antecedent.

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VITA

Edmond Kam-ming Lau was born in Hong Kong on October 8, 1951. He received his primary, secondary and matriculation education in that city.

In January, 1974, he came to the United States and enrolled in the University of Wisconsin-Eau Claire, where he graduated in May, 1977 with a Bachelor of Science degree in Geography. The following September he accepted a teaching assistantship at the University of Tennessee, Knoxville, and began study toward a Master's degree. This degree, Master of Science specializing in Geography, was awarded in August, 1979.

The author is a member of the Association of American Geographers.