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POLITICAL RISK IN HONG KONG

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POLITICAL RISK IN HONG KONG

British-Chinese discussions have raised a controversy over the future of Hong Kong, the British-ruled colony which earns China 40% of its foreign exchange. Hong Kong is the world's third largest financial market. Because Hong Kong is economically vital to China, it has long been assumed that, after the British lease to most of the colony expires in 1997, China would continue to permit British rule. China has in the past taken great care not to challenge that assumption, and it wished to ignore the matter for a further period. However, key Hong Kong institutions stopped giving mortgages beyond 15 years. Those affected petitioned British Prime Minister Margaret Thatcher, who, traumatized by warfare over another small colony, the Falkland Islands, raised the issue with the Chinese. The Chinese leadership fails to see the urgency of an issue fifteen years in the future, while Hong Kong's capitalists don't see how they can invest billions of dollars in land and equipment without assurance they won't lose it in a mere fifteen years.

China of course insisted on sovereignty, including its own right to appoint Hong Kong's governor after 1997, while promising protection of all the interests of capitalists in Hong Kong. China feels free to make such promises because Hong Kong, unlike Taiwan, does not contain an alternative leadership or ideology threatening to the leadership in Beijing. China's promises are sincere, because they are rooted in vital economic interests. Nonetheless, Hong Kong's economic leaders are rightly frightened. A Chinese-appointed governor would come under pressure both from local people and from factions in Beijing to take steps which communists regard as moral requirements but which infringe the interests of Hong Kong's economy. For instance, Beijing would probably insist on an anti-crime campaign, with wide economic consequences, and it is difficult to imagine a communist-appointed government allowing persistence of Hong Kong's freewheeling free press, which provides a flow of information necessary to Hong Kong's booming capitalist economy. Thus, despite China's sincerity, Margaret Thatcher's initiative has caused a nosedive in Hong Kong's currency and stock exchange, along with a risk of collapse in the real estate market. Such a collapse would endanger many of Hong Kong's leading firms. Uncertainty will persist until reassuring details of future arrangements are successfully negotiated.

The risks in this situation are two: First, that a collapse of the real estate market could endanger key corporations and banks. Second, that over time Hong Kong's dynamism might diminish in favor of Singapore. The first risk is greatest now, and will diminish fairly rapidly as people gradually adjust to a new understanding of Hong Kong's politics; it could rise intermittently if Chinese-British negotiations are mishandled. The second risk is more gradual, but also more persistent; full confidence can only be restored by positive reassurances and concrete agreements. The up side is that both the British and the Chinese seek to maintain the economic and financial status quo and have a very powerful mutual interest in finding a solution to the Hong Kong dilemma.