

HONG KONG

HIGH IDEALS, RISKY STRATEGIES

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THE CENTRAL MISPERSION

BRITAIN:

**DEMOCRACY
VS
COMMUNISM**

CHINA:

**EXPORT
PROCESSING
ZONE**

THE BASIS OF COMPROMISE

**BRITAIN:
DEMOCRACY
VS
COMMUNISM**

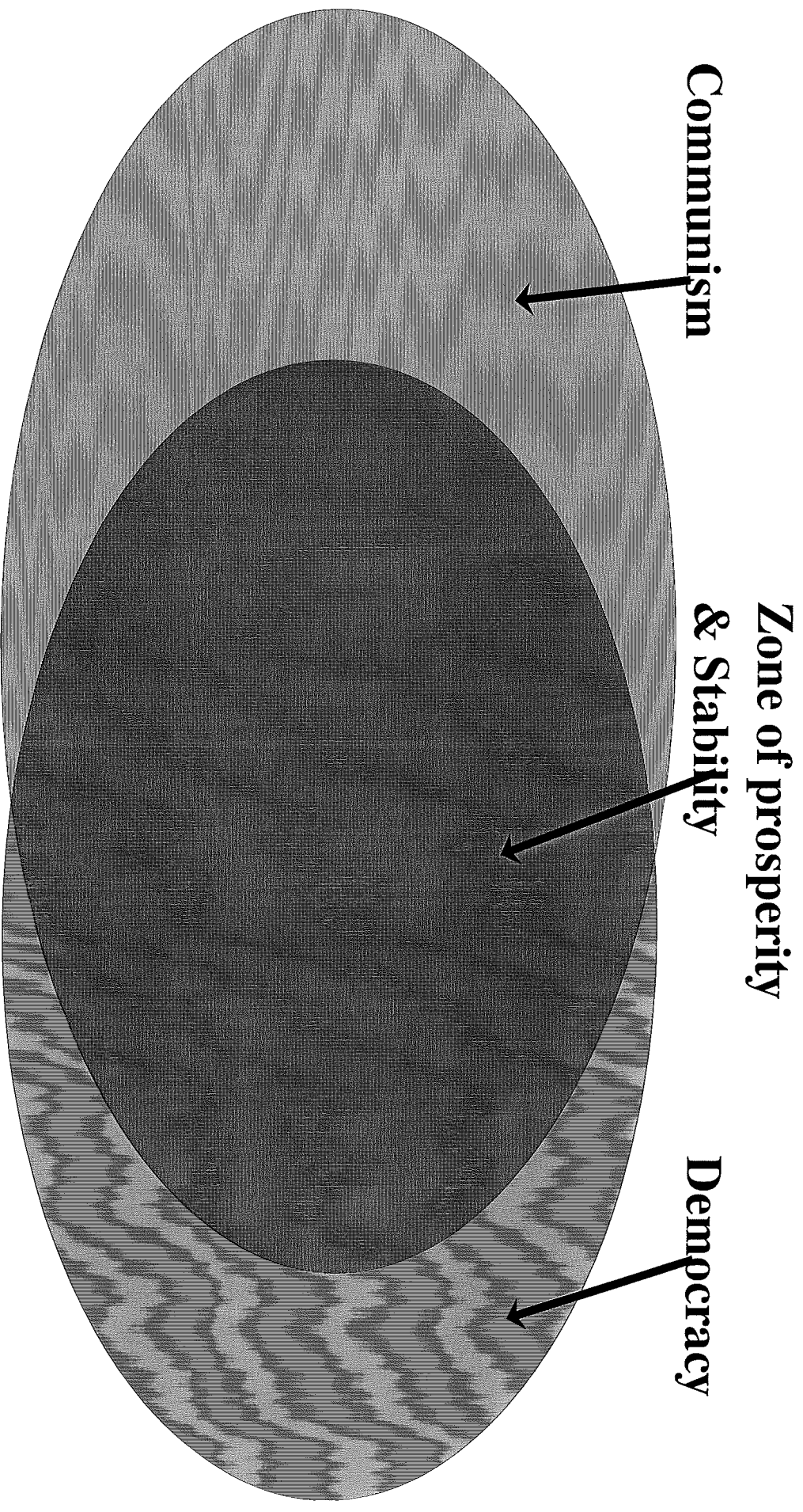
**CHINA:
EXPORT
PROCESSING
ZONE**

**OVERLAPPING
INTERESTS
STRUCTURAL
CONGRUENCE**

CAN IT WORK?

- LONG HISTORY OF ENCLAVE SYSTEM
- SUCCESS OF TAIWAN, KOREA EXPORT PROCESSING ZONES
- CONTINUITY UNDER STRESS
 - CULTURAL REVOLUTION
 - MACAO
 - TIANANMEN SQUARE
- RECORD OF HONORING AGREEMENTS
- CONSENSUS IN BEIJING
- DESIRE TO SET EXAMPLE FOR TAIWAN

THE BASIC COMPROMISE



THREE MYTHS

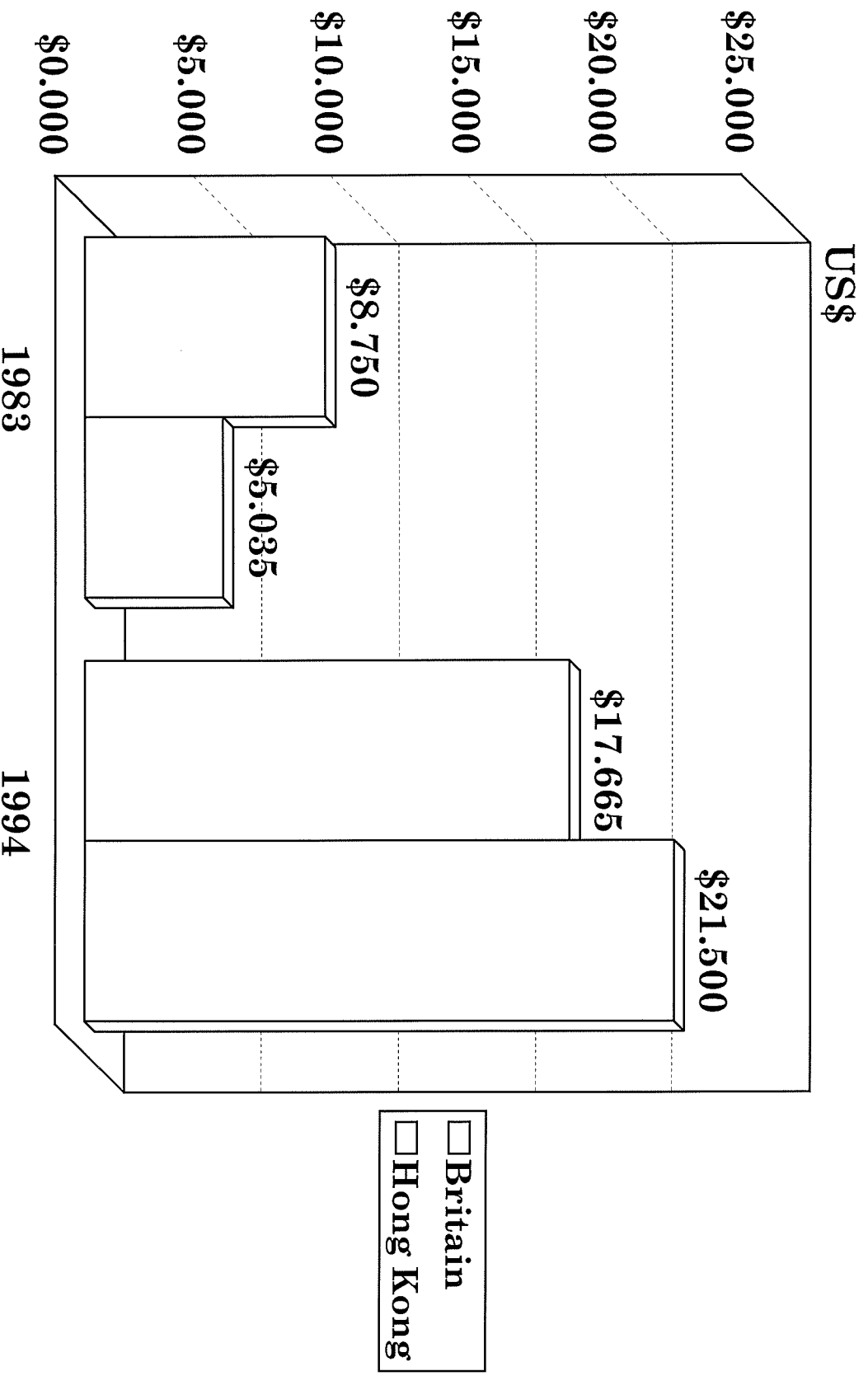
- **BRAIN DRAIN**
- **CAPITAL FLIGHT**
- **CORPORATE FLIGHT**

THE 'BAD' YEARS, 1981-1991

	1979	1991
GDP	\$21.6 Billion	\$81.6 Billion
Total Exports	\$15.3 Billion	\$98.6 Billion
Re-Exports	\$4 Billion	\$68.8 Billion
Trade Rank	20th in world	10th in world
Foreign Companies	1261	2828
U.S. Expats	10880 (1980)	24600
Cargo	1.3 Million TEU	6.1 Million TEU

Per Capita Income

While Hong Kong Was Dying



IFS 1995 Yearbook, HK Government

HONG KONG'S ROLES

- AIRLOCK FOR CHINA
- ENTPREPOT
- REGIONAL FINANCIAL CENTER
- SERVICE HEADQUARTERS FOR ASIA
- GLOBAL SERVICE INTEGRATOR
- REGIONAL MANUFACTURING
MANAGER
- MNC HEADQUARTERS
- TOURIST CENTER

THREE DIFFICULT WORDS

- **AUTONOMY**
- **CONSULTATION**
- **REFLECTION**

CENTRAL BALANCES

- NON-SUBVERSION VS. DEMOCRACY
 - ✓ LEADERSHIP
 - ✓ PRESS
- DEMOCRACY VS. EFFECTIVENESS
 - ✓ LEGISLATION
 - ✓ PRESSURE GROUPS
- FREEDOM FROM ABUSE VS FREEDOM FROM CRIME
- AUTONOMY VS. CONVERGENCE

KEY ISSUES

- **RULE OF LAW**
 - CURRENT SYSTEM REMAINS
 - JUDGES WILL BE CHOSEN AS NOW
 - CFA ARRANGEMENTS BROADLY SATISFACTORY
- **FREEDOM OF THE PRESS**
 - EXCEPT FOR ADVOCACY OF TAIWAN/HK INDEPENDENCE
 - SOME ISSUES OVER CHINA "SECRETS"
 - TREND IN CHINA BETTER THAN IN MUCH OF SE ASIA
- **PROVISIONAL LEGISLATURE**
 - BRITAIN: DEMOCRACY
 - CHINA: SOVEREIGNTY

BUMIPS

- ▶ RUN ON CURRENCY
- ▶ WASHINGTON/LEGGO
CONFRONTATION
- ▶ 15TH PARTY
CONGRESS
- ▶ JUNE 30 DEMO?

SUCCESS OR FAILURE?

- ▶ CHINA'S PERSPECTIVE
 - CHINA'S GROWTH
 - HONG KONG'S GROWTH
 - TAIWAN RELATIONSHIP
 - CHINESE SOVEREIGNTY
- ▶ BRITAIN'S PERSPECTIVE
 - HONG KONG'S FREEDOMS
 - HONG KONG'S DEMOCRACY
- ▶ THERE'S A BASIS FOR A DEAL

STRATEGIES

- ▶ CHINA: HEAVY-HANDED CONTROL
 - FREDERICK FUNG
 - TEACHERS UNION
 - LUTHERANS
 - BUT BACK OFF WHEN PRESSED
 - AND WILL ALLOW DEMOCRATS TO COMPLETE
- ▶ PATTEN: SARCASTIC CONFRONTATION
 - ENEMIES OF DEMOCRACY
 - ALL WHO DISAGREE
 - ESP. BUSINESS COMMUNITY
 - TAUNTS LU PING ABOUT BACK DOOR
 - INTERNATIONALIZATION

CHINESE FLEXIBILITY?

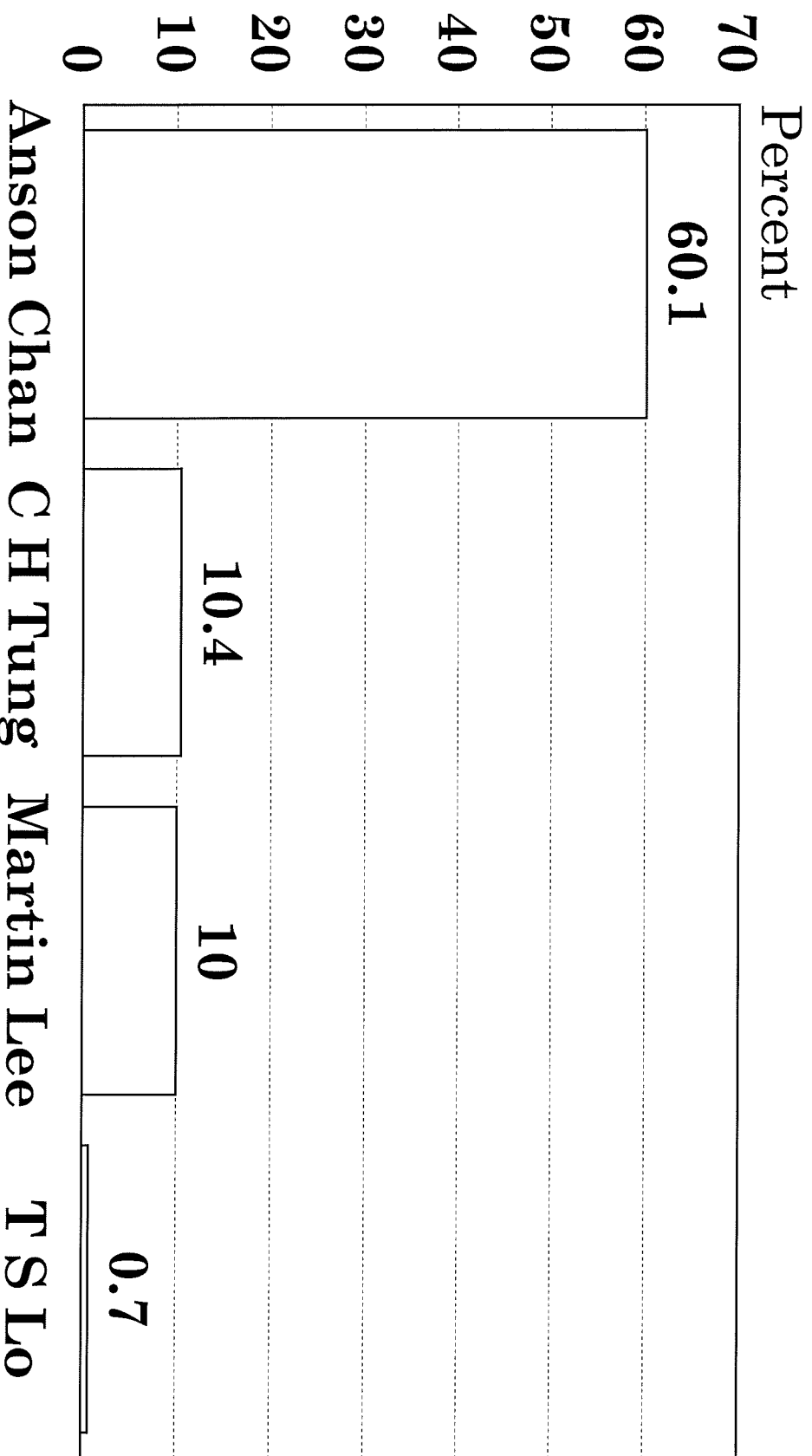
- ▶ WHAT'S NEGOTIABLE
 - CAPITAL GAINS TAX
 - COURT OF FINAL APPEAL
 - DEMOCRATS' ROLE
- ▶ WHAT'S NOT
 - NON-SUBVERSION RULE
 - MUTUAL AGREEMENT ON LEGCO
- ▶ ISSUE IS SOVEREIGNTY NOT DEMOCRACY

CHINESE COMMITMENTS TO HK FINANCIAL STABILITY

- HK GOVT TO FORMULATE OWN MONETARY & FINANCIAL POLICIES
 - PBOC-HKMA WORKING RELATIONSHIPS SUPERB
- HK CURRENCY WILL REMAIN AUTONOMOUS
 - SOLE LEGAL TENDER
 - NO FOREIGN EXCHANGE CONTROLS ALLOWED
 - PBOC TO SUPPORT HK IN CRISIS BUT ONLY IF ASKED
- EXCHANGE FUND MANAGED SOLELY BY SAR
- CHINESE BANKS WILL BE TREATED AS FOREIGN
- CHINA & HK WILL TREAT EACH OTHER'S DEBTS AS FOREIGN

EXECUTIVE LEADERSHIP

WHO DOES HONG KONG WANT?



EXECUTIVE LEADERSHIP

WHAT DOES HONG KONG WANT?

- ✓ COMMITMENT TO DEMOCRACY
- ✓ GOOD ADMINISTRATOR
- ✓ WILL STAND UP FOR HONG KONG
- ✓ CAN GET ALONG WITH CHINA

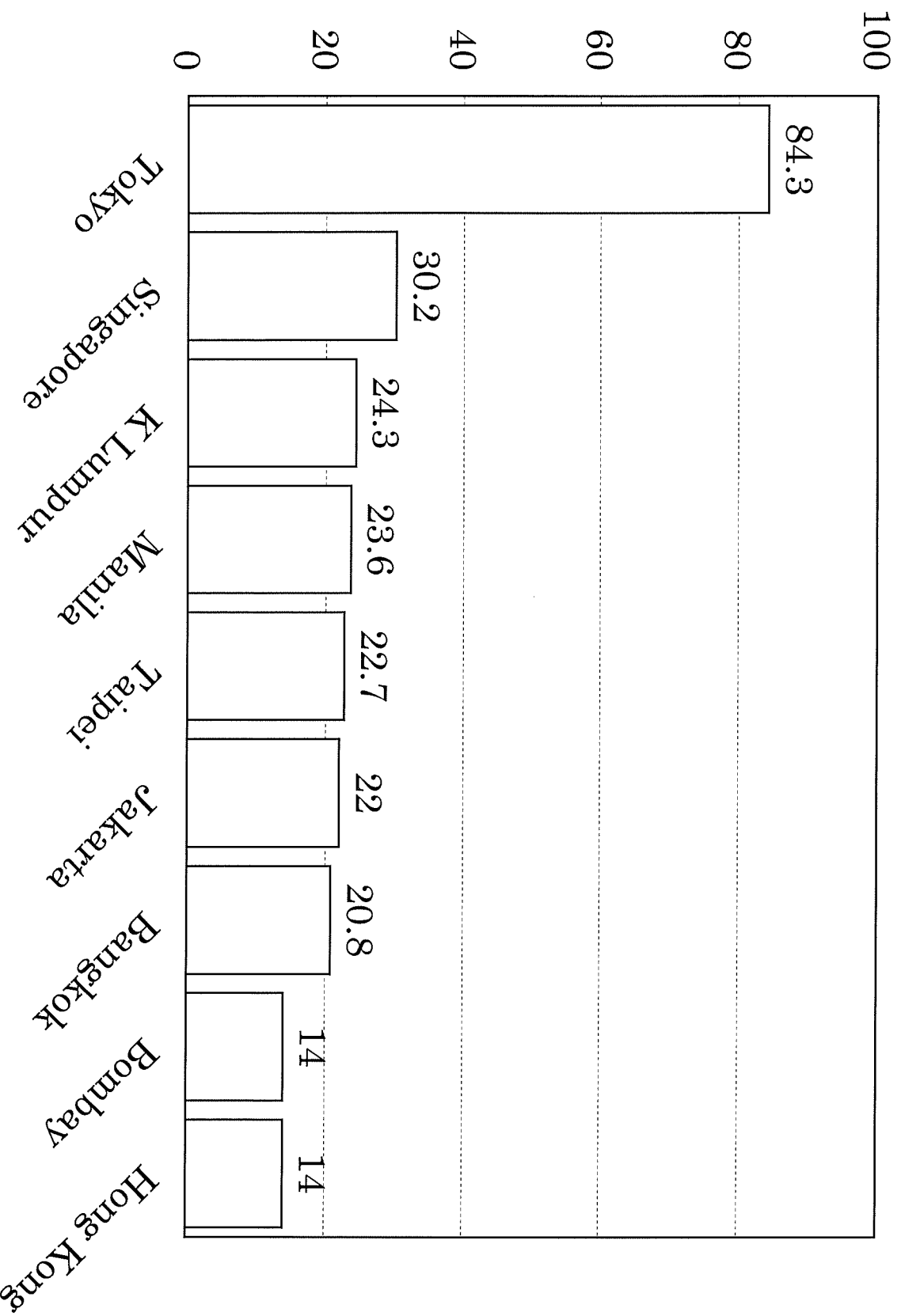
• SIGNS OF RESILIENCE

- ▶ FOREIGN BUSINESS CONFIDENCE AT HIGHEST MODERN LEVEL
- ▶ STOCK MARKET VIGOROUS
- ▶ NET INFLOWS OF CAPITAL, PEOPLE
- ▶ PROPERTY PRICES RISING
- ▶ RETAIL SALES IMPROVING
- ▶ LOW UNEMPLOYMENT
- ▶ YOUNG WOMEN NO LONGER INSIST ON HUSBANDS WITH FOREIGN PASSPORTS

HK-GUANGDONG INTEGRATION

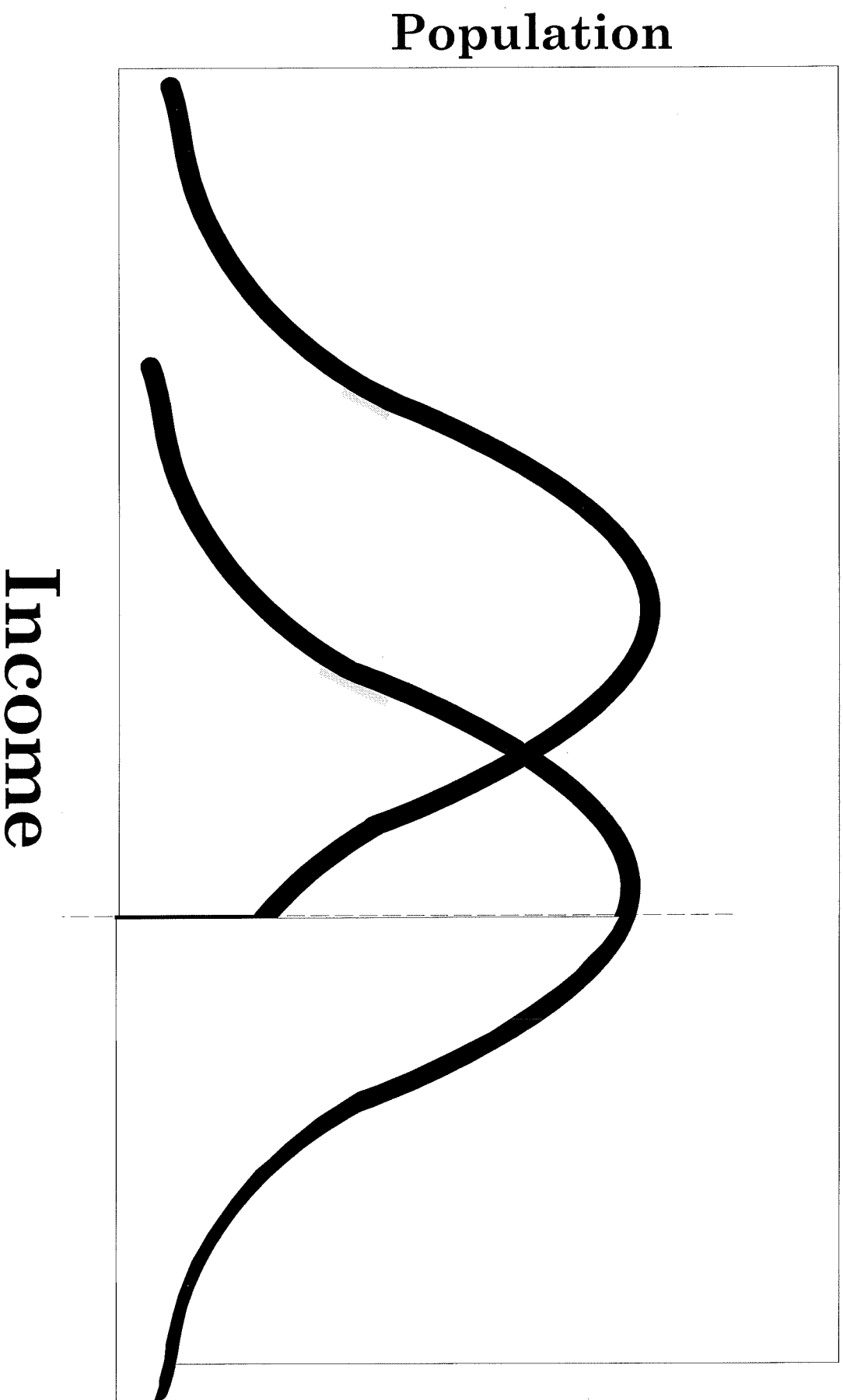
- 1/2 OF GUANGDONG INDUSTRIAL
WORKFORCE EMPLOYED BY
HONG KONG
- 2/3 OF CHINA'S FOREIGN
INVESTMENT COMES FROM HONG
KONG
- 4/5 OF ALL GUANGDONG
INVESTMENT COMES FROM HONG
KONG
- 5/6 OF ALL HK FIRMS' EMPLOYEES
ARE IN GUANGDONG

ASIA P/E RATIOS



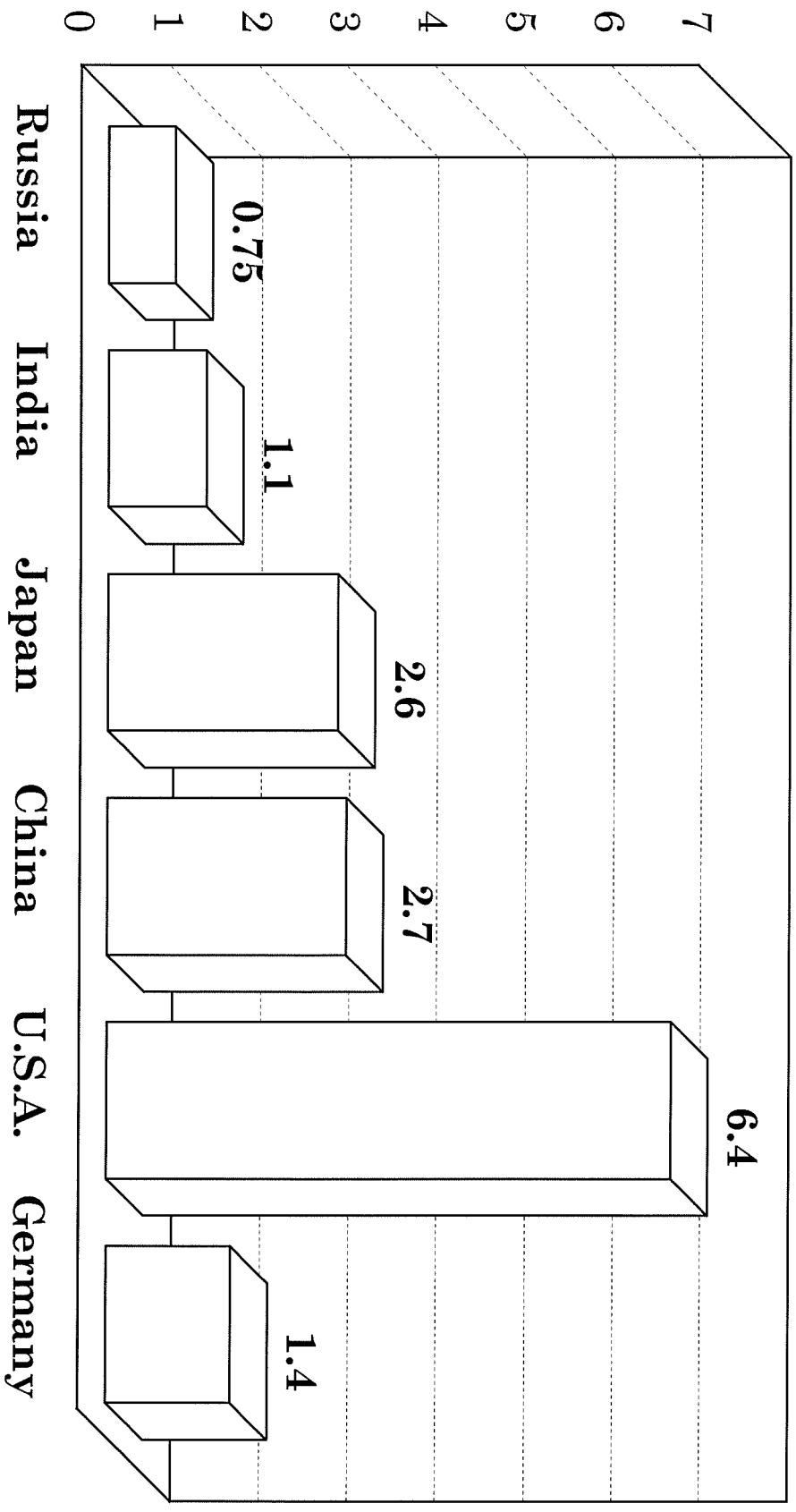
Asiaweek May 10, 1996

Economic Growth & Market Growth



GNP AT PURCHASING POWER PARITY, 1993

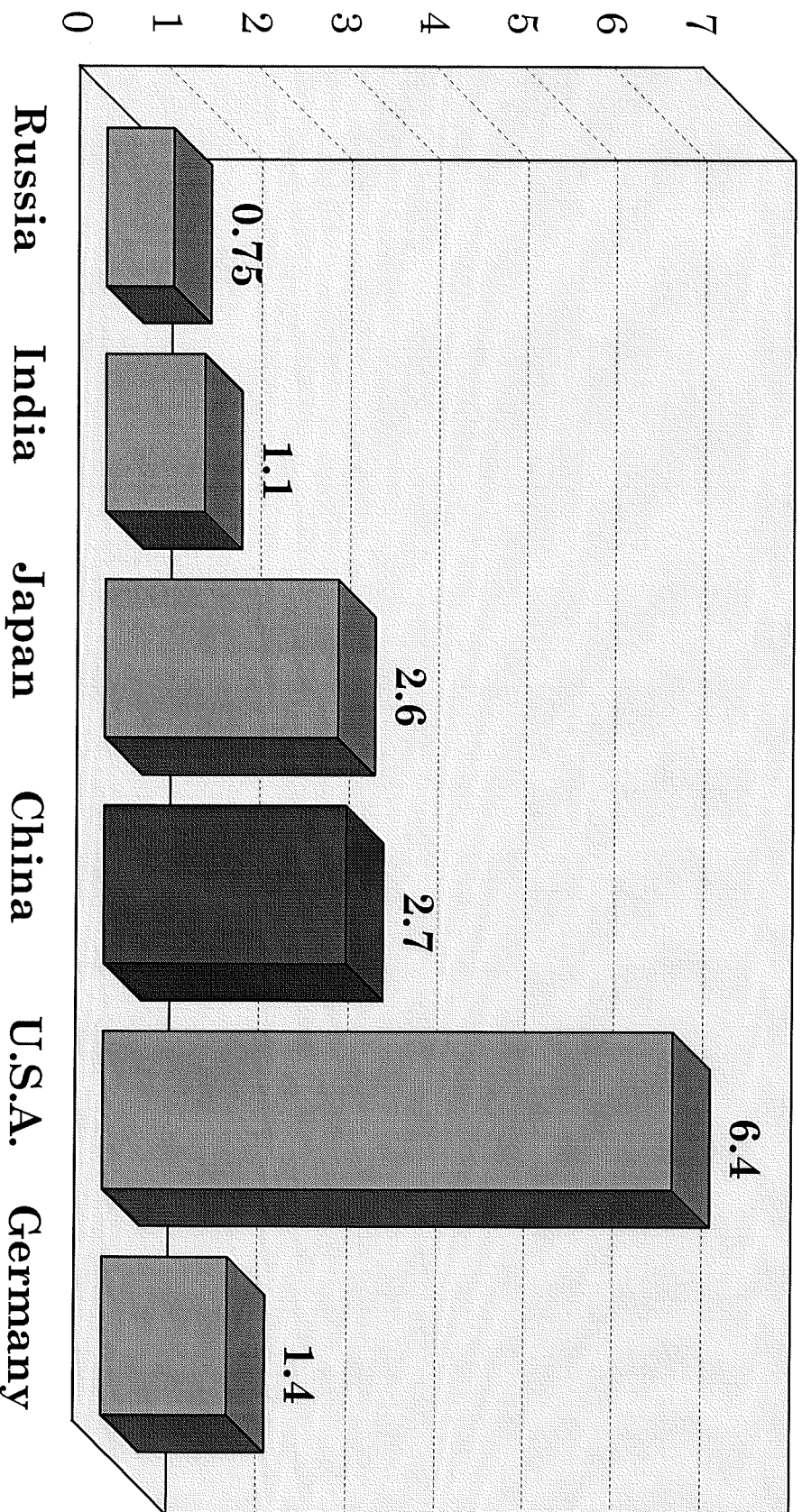
US \$ Trillion



World Bank, World Development Report 1995, pp 210-211, 220-221

GNP AT PURCHASING POWER PARITY, 1993

US \$ Trillion



World Bank, World Development Report 1995, pp 210-211, 220-221